KAUNAS UNIVERSITY OF TECHNOLOGY

SCHOOL OF ECONOMICS AND BUSINESS

Laima Buzėnaitė

FINANCIAL REPORTING QUALITY RESEARCH

Final Degree Project

Supervisor
Prof. dr. Lina Dagilienė

KAUNAS, 2019

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FINANCIAL REPORTING QUALITY RESEARCH

Accounting and auditing (code 6211LX037)

Final Master's Degree Project

Supervisor
(Signature) Prof. dr. Lina Dagilienė
(date)

Reviewer
(Signature) Doc. dr. Kristina Kundelienė
(date)

Student
(Signature) Laima Buzėnaitė, VMAen-7
(date)

KAUNAS, 2019

KAUNAS UNIVERSITY OF TECHNOLOGY

School of Economics and Business

(Faculty)

Laima Buzėnaitė

Accounting and auditing (code 6211LX037)

„Financial Reporting Quality Research" of final master's degree project

DECLARATION OF ACADEMIC INTEGRITY

13 May 2019

Kaunas

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Buzėnaitė, Laima. Financial Reporting Quality Research. Master's Final Degree Project / supervisor prof. dr. Lina Dagilienė; School of Economics and Business, Kaunas University of Technology.

Study area (study field group), study field: Business and Public Management, Accounting.

Keywords: *financial reporting, financial reporting quality, BAS, audit, compliance with BAS, assessment, study.*

Kaunas, 2019. 62 pages.

SUMMARY

Financial reporting is the most important regulated source of information showing the company's financial position, performance and cash flows. The purpose of financial reporting is to satisfy the needs of information users to obtain fair information about the entity's financial position, performance, changes in assets and liabilities, and cash flows that are common to most users of financial statements (taxpayers, state institutions and bodies, banks and other financial institutions, investors and other interested groups) and helps to make economic decisions. Following on from the importance of the financial statements, another aspect of the quality of financial reporting and its concept arises. Quality of financial reporting is still an issue of scientific and practical debates. Scientists do not agree on the best method for measuring the quality of financial reporting and offer a wide range of assessment methods. Therefore, there is a problem for the user of the financial reporting information on which basis to choose the method of quality assessment of financial reporting. The research aim – to identify importance and problems related to the financial reporting quality and to suggest theoretical and practical framework for quality assessment of financial reporting.

The research started with the problem analysis of quality of financial reporting and was continued with presentation of theoretical framework for valuation quality of financial reporting. After discussing the main methods of quality assessment of financial reporting, case study as research method was presented. It was chosen to evaluate the financial reporting of the Aljansas AIBĖ, UAB, group of companies on the basis of the theoretical model of the quality assessment of financial reporting proposed in the project - their reliability (audit aspect) and compliance with the requirements of six business accounting standards. Following an empirical study, a high quality of the group's financial reporting was obtained, which was also confirmed by an external auditor of the group. Thus, the proposed theoretical model was implemented in practice and the results obtained showed the quality of the financial reporting.

Buzėnaitė, Laima. Finansinių ataskaitų kokybės tyrimas. Magistro baigiamasis projektas / vadovas prof. dr. Lina Dagilienė; Kauno technologijos universitetas, Ekonomikos ir verslo fakultetas.

Studijų sritis (studijų krypčių grupė), studijų kryptis: Verslas ir viešoji vadyba, Apskaita. Reikšminiai žodžiai: *finansinė atskaitomybė, finansinės atskaitomybės kokybė, BAS, auditas, atitiktis BAS, vertinimas, tyrimas.*

Kaunas, 2019. 62 puslapiai.

SANTRAUKA

Finansinės ataskaitos yra svarbiausias reglamentuojamas informacijos šaltinis, rodantis įmonės finansinę padėtį, veiklos rezultatus ir pinigų srautus. Finansinių ataskaitų tikslas – patenkinti informacijos naudotojų poreikius gauti teisingą informaciją apie įmonės finansinę padėtį, veiklos rezultatus, turto ir įsipareigojimų pokyčius bei pinigų srautus, kurie yra bendri daugumai finansinių ataskaitų naudotojų (mokesčių mokėtojai, valstybės institucijos ir įstaigos, bankai ir kitos finansų įstaigos, investuotojai ir kitos suinteresuotos grupės) ir padeda priimti ekonominius sprendimus. Atsižvelgiant į finansinių ataskaitų svarbą, atsiranda dar vienas finansinių ataskaitų kokybės aspektas ir jo koncepcija. Finansinių ataskaitų kokybė vis dar yra mokslinių ir praktinių diskusijų klausimas. Mokslininkai nesutaria dėl geriausio finansinės atskaitomybės kokybės vertinimo metodo ir siūlo platų vertinimo metodų spektrą. Todėl finansinių ataskaitų informacijos naudotojui kyla problema, kokiu pagrindu pasirinkti jų kokybės vertinimo metodą. Taigi, tyrimo tikslas - nustatyti svarbą ir problemas, susijusias su finansinių ataskaitų kokybe, ir pasiūlyti teorinę ir praktinę finansinių ataskaitų kokybės vertinimo sistemą.

Tyrimas prasidėjo finansinių ataskaitų kokybės problemos analize ir buvo tęsiamas pateikiant teorinę finansinių ataskaitų kokybės vertinimo sistemą. Aptarus pagrindinius finansinių ataskaitų kokybės vertinimo metodus, buvo pristatytas atvejo tyrimas kaip tyrimo metodas. Jis buvo pasirinktas įvertinti įmonių grupės Aljansas AIBĖ finansines ataskaitas, remiantis projekte pateiktu finansinių ataskaitų kokybės vertinimo teoriniu modeliu - jų patikimumu (audito aspektu) ir šešių verslo apskaitos standartų reikalavimų laikymusi. Atlikus empirinį tyrimą, buvo gauta aukšta įmonių grupės finansinių ataskaitų kokybė, kurią interviu metu taip pat patvirtino įmonių grupės išorės auditorius. Taigi, siūlomas teorinis modelis buvo įgyvendintas praktikoje, o gauti rezultatai parodė finansinių ataskaitų kokybę.

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INTRODUCTION

Financial reports are an important source of information for the company as well as for other users of the financial reporting. Properly prepared financial reporting, together with additional information, allow the company to carry out an analysis of financial data necessary for internal needs, to make the right decisions about the prospects of the activity, opportunities for development, and organization of work. It also makes it possible to compare the changes in the financial position of the company over a period of time and to compare the company's financial position with other companies.

Also, financial reporting is required for their external users - investors, creditors, business partners, state supervisors, the community where the company operates, and other stakeholders. Therefore, it is very important that the financial reporting of the companies is prepared in a qualitative manner in order to ensure that the information provided by the financial reporting is reliable and correct, well understood. In particular, the latter statement became relevant in the context of increasing globalization and the growth of international business - it became necessary for companies from different countries to communicate in a global accounting language. International Financial Reporting Standards ((hereinafter – IFRS) have been developed and issued to be considered as a uniform set of accounting standards in order to implement the principle of comparability of financial reporting. However, on the other hand, due to cultural differences, it is unrealistic to recognize and implement a single set of standards in a totally uniform way so that comparable financial reporting can be produced.

Therefore, in the light of the above considerations, as well as the fact that there are constantly raised questions about the quality of companies' financial statements and the responsibility for the quality of the financial reporting, the work will be aimed at ascertaining which key financial reporting issues are encountered by financial reporting providers in Lithuania and abroad and what are the financial reporting quality assurance measures.

Research object – quality of financial reporting.

Research objective – to identify importance and problems related to the financial reporting quality and to suggest theoretical and practical framework for quality valuation of financial reporting.

Tasks for achieving the stated goal:

1. to conduct literature review and analysis of laws (IFRS, Business Accounting Standards – hereinafter BAS) about quality definition and valuation issues of financial reports and the appropriateness of the regulation in their dealings with them;
2. to create a theoretical model for assessing the quality of financial reporting;
3. to create a methodological assessment framework for quality of financial reporting assessment;
4. to conduct an empirical study and submit proposals for identified issues of financial reporting quality.

Research methods:

- studies and analysis of scientific literature and articles;
- studies and analysis of legislation;
- the study method is a case study. In case study, document analysis and interview[1] was performed.

[1] Interview - a conversation between two, sometimes more people, asking information on a particular topic when asking questions. It is a widespread method of media and some humanities research (https://lt.wikipedia.org/wiki/Interviu).

1. PROBLEM ANALYSIS OF QUALITY OF FINANCIAL REPORTING

1.1. The importance of financial reporting

Beginning of the analysis of the chosen topic, it is necessary to explain what the financial reporting is and how, based on which rules it is drawn up, who are the main users of financial reporting information.

The financial reporting (financial statements) is compiled on the basis of Business Accounting Standards (hereinafter – BAS) or International Financial Reporting Standards (hereinafter – IFRS), the purpose of which is to satisfy the needs of information users to obtain fair information about the entity's financial position, performance, changes in assets and liabilities, and cash flows that are common to most users of financial reporting (taxpayers, state institutions and bodies, banks and other financial institutions, investors and other interested groups) and helps to make economic decisions. The financial reporting also shows the management of the company's assets and cash management results. In order to achieve this objective, the financial reporting present information about the entity's assets, liabilities, equity, income and expenses, including profit and loss, owners' contributions and distribution to owners as equity holders and cash flows. These data together with other information provided in the notes give users of the financial statements the possibility to forecast future cash flows of the entity, their timing and probability. Hence, the important role of financial reports is played by their users. Mackevičius and Poškaitė (1998), according to Rees (1990) methodology, make such groups of internal and external users of financial information (Table 1):

Table 1. Groups of internal and external users of financial information (composed by the author based on Mackevičius and Poškaitė (1998))

<table>
<tr><th colspan="4">Internal users of financial reporting</th></tr>
<tr><td>Company managers</td><td>Shareholders</td><td>Investors holding the company's securities</td><td>Other categories of depositors are usually banks</td></tr>
<tr><th colspan="4">External users of financial reporting</th></tr>
<tr><td colspan="2">Business participants</td><td colspan="2">Other users’ groups</td></tr>
<tr><td colspan="2">1. Creditors</td><td colspan="2">1. The government</td></tr>
<tr><td colspan="2">2. Suppliers</td><td colspan="2">2. Competitors</td></tr>
<tr><td colspan="2">3. Employees and trade unions</td><td colspan="2">3. Analysts and consultants</td></tr>
</table>

Thus, a financial report is a document of a company/institution that describes its financial position for a certain period in accordance with a standardized form, based on accounting standards. The main five financial statements are as follows[2]:

• Profit (loss) statement – shows the company's income and expenses and their structure during the reporting period. The company's profit or loss is also indicated;

• Balance sheet – provides instant information on the date of the entity's financial position. It is possible to find on the balance sheet, for what amount the company has assets, how much it is indebted, what are its receivables, and so on;

[2] Law of the Republic of Lithuania on financial reporting by undertakings, Art. 20.

• Cash Flow Statement – provides information on the movement of money in the company's underlying, investment and financial activities;

• Statement of changes in equity – a financial statement presenting data on changes in the entity's equity during the reporting period;

• Explanatory note – the financial statement explaining the amounts shown in the balance sheet of the company, the profit (loss), cash flows and changes in equity, as well as additional material information, not disclosed in other financial statements[3].

An annual statement of changes in equity and an explanatory note detailing the information in the financial reporting are also required for the annual financial statements.

1.1.1. Lithuanian context

From the year 2016 the standardized financial statements have changed, all of which are presented on the website of the Authority of audit, accounting, property valuation and insolvency management under the Ministry of Finance of the Republic of Lithuania[4]. Companies are divided into micro, small, medium and large companies[5]. Depending on the category to which they are assigned, the companies have to compile an appropriate set of financial statements[6]. The Table 2 summarizes the categorization of enterprise allocation criteria and the related requirements for compiling the financial statements.

[3] Law of the Republic of Lithuania on financial reporting by undertakings, Art. 3.
[4] http://www.avnt.lt
[5] Law of the Republic of Lithuania on financial reporting by undertakings, Art. 4.
[6] http://www.avnt.lt/veiklos-sritys/apskaita/verslo-apskaitos-standartai/finansini-ataskait-en-formos-nuo-2016-01-01/

Table 2. Categorization of enterprise allocation criteria and the related requirements for compiling the financial reporting (composed by the author based on Law of the Republic of Lithuania on Financial Reporting by undertakings)

Category names and distribution criteria	**Very small** *(at least two indicators on the last day of the financial year do not exceed these sizes)*	**Small enterprises** *(of which at least two indicators do not exceed these sizes on the last day of the financial year)*	**Medium-sized enterprises** *(of which at least two indicators on the last day of the financial year do not exceed these sizes)*	**Large companies** *(of which at least two indicators over the last day of the financial year exceed the sizes)*
Value of the assets indicated on the balance sheet, EUR	350 000	4 000 000	20 000 000	More than 20 000 000
Net sales during the reporting financial year, EUR	700 000	8 000 000	40 000 000	More than 40 000 000
Average annual number of employees by the list during the reporting financial year	10 employees	50 employees	250 employees	More than 250 employees
Composition of the financial statements				
Balance	Yes (short balance)	Yes (short or shortened)	Yes	Yes
Profit (loss) statement	Yes (short profit (loss) statement)	Yes	Yes	Yes
Cash flow statement	–	At your discretion	Yes	Yes
Statement of changes in equity	–	At your discretion	Yes	Yes
Explanatory note	At your discretion	Yes	Yes	Yes
Annual report	Optional (but some information must be provided on the balance sheet)	Not required (but some details must be provided in the notes)*	Yes *(AB, UAB, real economic partnership and limited partnerships, all of whose members are AB or UAB)**	Yes *(AB, UAB, real economic partnership and limited partnerships, all of whose members are AB or UAB)*

* - Small and medium-sized enterprises may not provide certain non-financial information.

All companies in Lithuania (except for Individual, General Partnership and Limited Partnership enterprises) must prepare a set of annual financial statements based on BAS and submit them to the Registry Centre in electronic form. There they are available to everyone for a certain fee. The annual reports must be prepared and approved by the shareholders' meeting within four months of the end of the tax period[7] (usually the same as the calendar year). They must be submitted to the Registry Centre within 30 days of approval of shareholders. If a company exceeds the set of criteria, its financial statements must be audited by an independent auditor – annual financial statements of PLCs (public limited company), cooperative societies (cooperatives), general partnerships and limited partnerships all general partners whereof are PLCs must be audited where at least two indicators thereof on the last day of the financial year exceed the following limits[8]:

1) The value of assets on the balance sheet – EUR 1,800,000;
2) net sales revenue during a reporting financial year – EUR 3,500,000;
3) the average annual number of payroll employees during a reporting financial year – 50 employees.

1.1.2. International context

Global economic integration is expanding, the importance of international investment is increasing, and financial accounting becomes increasingly complex and complicated. Differences in financial reporting make the accounting and financial performance of different countries incomparable. Therefore, effective business development requires information that can be evaluated as quickly as possible and be useful for decision making. This requires a single accounting system to be integrated to the global capital market. For this reason, International Accounting Standards (hereinafter - IAS) and IFRS have been developed, which aim is to bring the accounting standards used in different countries closer together in order to establish general accounting regulations and to harmonize accounting practices by establishing the same accounting rules and regulations in the different countries with the ultimate goal of the overall comparison.

According to Toth and Darabos (2016), as the pace of globalization and cross-border financial activity increases, capital markets become more interdependent, and there is a greater need for the development of internationally accepted standards. It also reveals that the standards published by the IASB[9] (hereinafter - International Accounting Standards Board) are gaining ever wider acceptance and recognition in today's globalized world economy, although this also illustrates the growing future importance of IFRS and the IASB's work in several area – adoption of IFRS as national rules, influence on national regulators and voluntary adoption of IFRS by different business entities. IASB describes the information provided by the financial statements as qualitative if it meets the qualitative characteristics of the financial statements and allows it to achieve the objectives of the financial statements. IASB emphasizes the importance of financial statements for investors' decision making, arguing that the purpose of financial statements is to provide financial information to the entity that would be useful to existing and potential investors, lenders and other creditors in deciding to finance a business entity.

[7] Law on Companies of the Republic of Lithuania, Art. 24.
[8] Law of the Republic of Lithuania on financial reporting by undertakings, Art. 24, p. 2.
[9] The Board is an independent group of experts with an appropriate mix of recent practical experience in setting accounting standards, in preparing, auditing, or using financial reports, and in accounting education. Board members are responsible for the development and publication of IFRS Standards, including the *IFRS for SMEs* Standard. The Board is also responsible for approving Interpretations of IFRS Standards as developed by the IFRS Interpretations Committee (formerly IFRIC), website https://www.ifrs.org/groups/international-accounting-standards-board/.

1.2. The concept of quality in financial reporting

Following on from the importance of the financial reporting, another aspect of the quality of financial reporting and its concept arises. As the information provided by the financial reporting, as mentioned above, uses a very broad circle of stakeholders for decision-making, the quality of the financial statements depends on the quality of those decisions, and it is not surprising that there is a constant debate about the quality of the financial reporting. There is no doubt that of higher quality the financial reporting is, the more accurate information about the entity is presented and a fairer choices user can make on the basis of this information.

The information provided by financial reporting is used by both external and internal users whose objectives are different, and it is undeniable that the quality of the financial reporting is understood differently by users of financial information.

Quality of financial reporting is still an issue of scientific and practical debates.

1.2.1. Quality defined by international and national scholars and accounting bodies

Van Beest, Braam and Boelens (2009) (an **international** aspect) note that the quality of the financial reporting is identical to the level of their compliance with the six qualitative characteristics[10] of IASB and their benefits to decision making.

Martinez-Ferrero (2014) states that the quality of the financial reporting is the reliability level of the information generated in the financial accounting process.

According to Biddle, Gilles and Rodrigo (2009), as well as Gorjeva-Trajkovska and Kostadinovski (2012), the quality of the financial statements reflects the accuracy of the company's financial information, in particular to the expected cash flows. The authors emphasize the importance of financial reporting information for the decision-making of potential investors and, through this aspect, assess the quality of the financial statements.

Qingliang, Huifa and Zhijun (2016) state that the quality of the financial reporting reflects the fairness and certainty of the information provided by the financial reporting about the entity's financial position and performance.

According to Achim and Chis (2014), the quality of the financial statements is a complete and transparent disclosure of financial information that does not mislead its users.

In line with Farooque (2016), financial reporting is assumed of high quality, when it is capable of making a difference in users' decision making, i.e. having predictive or confirmatory value, or both. This information can be perfectly reliable if it is complete, neutral and free from error. Current investors increasingly require qualitative accounting information to make proper investment decisions. Accordingly, the market positively values reliable accounting information. Therefore, quality disclosures can also mitigate investment risks/costs.

[10] Two fundamental characteristics (i.e. relevance and faithful representation) and four qualitative characteristics (i.e. understandability, comparability, verifiability and timeliness).

According to Newman, Edmore, Milondzo and Ongayi (2016), high financial reporting quality is when it allows constrained firms to attract capital by making their positive net present value (NPV) projects more visible to investors and by reducing adverse selection in the issuance of securities. According to the Conceptual Framework for Financial Reporting the financial statements provide ‘‘information about the entity’s economic resources and the claims against the reporting entity’’ and ‘‘information about the effects of transactions and other events that change a reporting entity’s economic resources and claims” (Financial Accounting Standards Board [FASB] 2010, 3). Based on the Conceptual Framework, Gaynor, Kelton, Mercer and Yohn (2016) define higher quality financial reports as those that are more complete, neutral, and free from error and provide more useful predictive or confirmatory information about the company’s underlying economic position and performance.

Legenzova (2016) emphasizes that accounting quality indicates the usefulness of accounting information by representing the entity's financial results and status in order to help predict the future results of this entity and the future value of the entity.

Continuing about quality definitions of **Lithuanian** scholars and accounting bodies, Rudžionienė and Juozapavičiūtė (2013) state that the financial reporting is qualitative if it is prepared on the basis of the entity's accounting policies and accounting regulations and meet the needs of the user of financial information.

According to Kundelienė (2009), accounting information is of good quality if it is transmitted to the users in a comprehensible form and is correctly represented, the context is appropriate and sufficiently expressed, and the meaning is perceived as useful.

The Authority of audit, accounting, property valuation and insolvency management under the Ministry of Finance of the Republic of Lithuania (2017) treats the quality of the financial reporting as the credibility of the information they provide to corporate executives, investors, creditors and other information users.

Based on carried out overview, many other authors define the concept of the quality of the financial reporting in quite a similar way, by distinguishing the two most important elements:

- The rules/standards/methodological guidelines for preparing financial reporting;
- the benefits to the users of financial reporting.

Therefore, the quality of the financial reporting is when it goes in line with the reporting requirements and suitability of the users in meeting their needs and in making decisions. On the other hand, the analysis of the literature has shown that the authors (Chen, Hope, Li and Wang, 2011; Achim and Chis, 2014; Van Beest et al., 2009) use their concepts as synonyms by defining the quality of accounting and quality of financial reporting. Although Legenzova (2016) and Kundelienė (2009) analysed the quality of accounting (information), the concept of accounting quality provided by the authors is broadly consistent with the concept of quality of financial statements, since 1926 distinguishes the same elements as profit and equity. In addition, the quality of the financial reporting directly depends on the quality of the accounting, as it is not possible to prepare high-quality financial statements without high quality accounting information. Therefore, it is proposed to use the term of the quality of the financial statements (or financial reporting).

1.2.2. Development of the accounting system in Lithuania

After analysis of the attitude of Lithuanian scientists towards the quality of the financial reporting and its definition, I would like to emphasize that Lithuania, with its complicated past and history, did not really have an accounting system for innovators on a world-wide level, the key elements were taken over from other leading countries in this field. Therefore, I will briefly discuss the development of the accounting system in Lithuania after the restoration of independence in 1990 before joining the European Union (EU[11]).

Thus, upon the reestablishment of independence, the transition to a market economy started immediately in Lithuania, rapid privatization was carried out. Some accounting problems have left from the Soviet Union. Many registries did not specify exactly what they are accounting for, but instead of commodity groups, only account numbers are indicated. The heads of the newly-created companies did not quite orient themselves in the accounting, did not manage to organize it, to control the work of accountants. In small companies there was a reliable accounting for the heads of relatives, sometimes before accounting for people who did not have anything to do. They were more likely to be interested in only individual accounting bills: settlements, inventory in stock, cost structure, and sometimes only the balance on the account. In the period of initial independence in Lithuania, the numbering of various forms of primary documents was noted, and also remained from the occupation times. Companies had to buy state-sized, rigorous reporting forms. As a result of computer skills and, therefore, more extensive use of them, Lithuanian accounting programs have emerged. At first, they were not very perfect, sometimes even brightened the time of accountants. Finally, computer programs have been refined and greatly helped to account for wages, depreciation of fixed assets, short-term assets and materials. Computer accounting programs not only helped keep records, but greatly facilitated the census of various documents, the computer simply printed them. In the run-up to membership in the European Union, the accounting approach has changed in Lithuania. However, in some large companies, where several hundred people worked, there was only one stockholder per hundred employees. Due to the complexity of accounting, gradually (even small) companies began to accept qualified accountants. In some (especially international) audit firms, employees with more than 10 years of experience gained valuable experience, the quality of the audit firms and the quality of services they provided, and the cost. According to EU requirements, Lithuania had to abandon the use of strict reporting (numbered in the printing press)[12]. Since 2005 the requirement to apply IFRS to those entities whose securities are traded on regulated markets has been introduced.[13]

1.3. Key challenges of defining quality of financial reporting

Quality assurance of financial reporting information is one of the main tasks of financial accounting. The requirements for information in the financial reporting are set out in the legislation governing the preparation of these reports. Hence, according to Guptor and Rudžionienė (2018), ensuring the quality of information during the preparation of the reports is a significant challenge. Firstly, there is no general definition of the quality of accounting information; second, there are no methods for preparing financial statements that would ensure the presentation of the information.

[11] The Economic and Political Community of the twenty-eight European countries.
[12] https://lt.wikipedia.org/wiki/Apskaitos_istorija_Lietuvoje.
[13] Law of the Republic of Lithuania on Bookkeeping, Art. 3.

Thirdly, in research papers examining the quality of the financial statements during their preparation, there is almost no paid attention to such an important factor as the decision-making processes of the person preparing the financial statements (how much the decision maker is free to interpret where its boundaries are, or when making subjective decisions about the quality of information it can achieve objective quality). Currently, the quality of the already prepared financial reporting is usually examined, but there is also no common consensus, which method of measuring the quality of the financial reporting is the best.

Given that there is no definition of the quality of a single financial statement, it is not surprising that the quality of financial statements is understood and interpreted differently by users of financial information. Consequently, there may also arise some disagreements between stakeholders in making important economic decisions, after a different assessment of the reliability and quality of financial reporting.

In order to provide a generalized view on measures to improve the quality of financial reports, the LBAA (Lithuanian Accountants and Auditors Association) in February 2017 provided a survey[14] whose questions were drawn up on the basis of a request from the Ministry of Finance. Most of the interviewees were accountants, senior accountants, financiers or accounting firms.

In order to determine whether the auditor's report on the financial statements is a guarantee of reliability of the reports, the participants were asked whether this gives them greater confidence in the accuracy of the data in the reports. Almost 43 % pointed out that this allows more confidence in the quality of the reports while 40 % of respondents pointed out that it does not give them more reliability. The rest do not have an opinion on this issue or chose another one.

The questionnaires were also asking whether they would agree with the statement that the larger the company, the better the quality of its financial statements. 65.5 % of people said they would not agree with this statement. In commenting on this choice, individuals indicated that it would be wrong to say that the quality of the financial statements depends on the size of the company and their quality is generally similar. The quality of larger companies may be slightly better, because large companies are more likely to be audited. Moreover, the quality significantly depends on the management's attitude, and not on the size of the company.

Based on the results of the survey, the question then arises whether the quality of the financial statements may depend on who makes records and prepares the full reports: an accountant working for an employment contract, an accounting company or a person performing the individual activity). 51 % of respondents noted that this indicator does not affect the quality of the financial statements.

As the biggest problems with the financial statements, the survey participants identify:

- Financial reporting, this is just a formality;
- Not all individuals submit them;
- Reports are not complete;
- Fake reports;

[14] http://www.lbaa.lt/lbaa-apklausa/

- There is a constant change in legislation, which results in the quality problems and lack of reliability of reports;
- The data presented are not comparable with last year;
- Accessibility for a wider range of users, which would encourage accountants and auditors to take more responsibility.

As possible quality improvement measures, participants in the survey mention:

- Stability (to reduce financial reporting variations);
- Cooperation with the Centre of Registers;
- Receiving comments from the Centre of Registers;
- Reducing the price or refusing to pay taxes as it would make them more accessible to all;
- Strengthening of reporting control;
- Examples of interpretative tables.

In summary, it can be argued that, according to accountants, the Ministry of Finance is faced with an incomprehensible issue of the quality of the financial reporting and the proposed measures do not affect the quality. There are no requirements for quality, there are no examples of what qualitative financial reports should look like, tables of exemplary explanatory notes are not prepared, and examples of how to make accounting in order to comply with tax and BAS (business accounting standards) requirements are not provided. Therefore, this project will be aimed at ascertaining which key financial reporting issues are encountered by financial reporting providers and what are the financial reporting quality assurance measures – in the context of globalization, it is important to ensure the comparability of financial statements, therefore, financial statements must be understandable and reliable, i.e. high quality.

2. THEORETICAL FRAMEWORK FOR VALUATION QUALITY OF FINANCIAL REPORTING

2.1. Approaches to quality measurement of financial reporting standards

Financial reporting must meet many criteria to be considered high quality because it is the quality of information that determines the viability of future strategic decisions. In this part I will define indicators and criteria of the financial reporting quality regarding IFRS and BAS. According to Renkas, Goncharenko and Lukianets (2016), as for the quality of the financial reporting, it is found that the latter is a structured reflection of financial condition and financial results of the entity, therefore, can be regarded as a set of components: quality of the financial information; quality of presentation of the financial information. It was found that the quality of the reporting of financial information is evaluated using a system of indicators that are qualified by the Financial reporting framework as the qualitative characteristics of useful financial information and BAS as the qualitative characteristics of financial reporting.

Talking about the quality of financial reporting is has to be understood that the latter is a structured display of the financial state and financial performance of the company[15], hence can be considered as a set of components – the quality of presentation of financial information and the quality of financial information.

2.1.1. National accounting standards (BAS)

As for the quality of presentation of the financial information, it is necessary to take into account the requirements of the Business Accounting Standard 1 (hereinafter – BAS 1) "Financial reporting", which establishes the financial reporting framework, the set of financial statements composition and general reporting content requirements. Financial reporting, transactions and the recognition, measurement and disclosure of economic events are dealt with in other business accounting standards. BAS 1 indicates the following qualitative characteristics of financial statements as clarity and understandability, relevance, neutrality and reliability, comparability, faithful representation, disclosure of the information of the accounting policies and changes that to some extent repeat the below IFRS characteristics.

The other standards[16] define the financial statements: balance sheet (statement of financial state), profit (loss) report, statement of cash flows, statement of changes in equity and notes to the financial statements.

However, BAS 1, BAS 2, BAS 3, BAS 4 and BAS 5 provide the shape, form and composition of items for the first four financial statements (balance sheet arrangements and forms; profit (loss) statement, income and expense grouping procedures, profit and loss account forms; he procedure for drawing up the statement of changes in equity and the following report forms; cash flow statement, cash flow grouping procedures for cash flow, investment and financial activities,

[15] IAS 1 “Presentation of Financial Statements”.

[16] Business Accounting Standard 2 "Balance sheet" (hereinafter – BAS 2), Business Accounting Standard 3 "Profit (Loss) Report" (hereinafter – BAS 3), Business Accounting Standard 4 "Statement of Changes in Equity" (hereinafter – BAS 4), Business Accounting Standard 5 "Cash Flow Statement" (hereinafter – BAS 5), Business Accounting Standard 6 "Explanatory Note" (hereinafter – BAS 6).

reporting forms) and non-formalized notes to the financial statements, as they are a set of indicators and explanations that provide a detailed justification of items of financial statements, and other information, disclosure is required by applicable BAS or IFRS. This information provides BAS 6, which purpose is to determine the information that is required to be disclosed on an entity's annual basis in the notes to the financial statements in order to clarify matters other financial statements are not presented and disclosed in the financial statements relevant information. The standard establishes a common explanatory note for small, medium and large enterprises content and comments requirements.

Readability of financial information reporting can be evaluated using specific criteria (feature, basis, rule of taking decision to evaluate something as required), for example: the presence or absence of description of individual objects registered in certain paragraphs, previously referred to in the preamble to the notes, the selection of material information font, colour, etc., presentation of financial statements in the form of brochures (in the case of publications), automatic leaving the financial statements to an appropriate descriptive part of the notes and vice versa (when forming electronic financial statements) etc. Visibility index of the presentation of financial information is caused by physiological properties of users. Therefore, regarding Achim and Chis (2014), the evaluation criteria in this case may be the presence of graphical information (pictures, tables, diagrams), ways of presentation (two-, three-dimensional drawings, diagrams, static or dynamic images), etc.

According to Renkas et al. (2016), in terms of formalization (representation in the legislation forms) presentation of financial information discussing the quality can only be possible in terms of the notes to the financial statements. Considering the quality of the set of properties, in assessing the quality of financial reporting, another term "indicator" (certificate, proof, a sign of something) must be used. Indicators assessing the quality of presentation of financial information in the notes may be – readability of information and visibility of representation.

Renkas et al. (2016) found that the quality of the reporting of financial information is evaluated using a system of indicators that are qualified by the Financial reporting framework as the qualitative characteristics of useful financial information and National Accounting Standard 1[17] as the qualitative characteristics of financial reporting. He has made a research of the quality requirements for the financial statements (information) of the participating countries of the former Soviet Union (based on the national accounting standards of every country) and has identified many variations, but the most commonly used features are relevance, reliability, comparability and understandability. All three Baltic States can be found here with their qualitative characteristics of Financial Reporting (Fig. 1). This information can be relevant in the Lithuanian context.

[17] Ukrainian National Accounting Standard.

IFRS or State	Quality requirements												
	Relevance	Faithful repre-sentation	Comparability	Verifiability	Timeliness	Understanda-bility	Neutrality	Materiality	Reliability	Objectivity	Usefulness	Conformity	Accuracy
The Republic of Latvia		+	+			+						+	
The Republic of Lithuania	+		+						+	+	+		
The Republic of Estonia		+											+

Fig. 1. Matrix Structure of Qualitative Characteristics of Financial Reporting in the Baltic States (adapted from Renkas et al., 2016)

On the basis of the information presented in Figure 1, it can be concluded that in Lithuania, the quality indicators for the quality assessment of financial reporting are used mainly in comparison with other Baltic countries. Here's a characteristic like "faithful representation" used in all three Baltic countries, while charities such as relevance, reliability, objectivity, usefulness, conformity, accuracy are only used in one of the Baltic countries (mostly in Lithuania). The Baltic States do not use such characteristics as verifiability, timeliness, neutrality, materiality, which regarding Renkas et al. (2016) are used in other countries – members of the former Soviet Union (the Russian Federation, the Republic of Belarus, the Republic of Armenia, the Republic o Georgia etc. (excluding Baltic States)).

2.1.2. IFRS Conceptual Framework

The quality of the financial information is also measured by a system of indicators that qualify Conceptual Framework for Financial Reporting (hereinafter – Conceptual Framework) as the qualitative characteristics of useful financial information and BAS 1 as the qualitative characteristics of financial reporting. According to the **Conceptual Framework**, financial statements prepared acc. to IFRS should have fundamental and improving qualitative characteristics (1 picture). Fundamental qualitative characteristics include: relevance, faithful representation. Improving qualitative characteristics include: comparability, verifiability, timeliness, understandability.

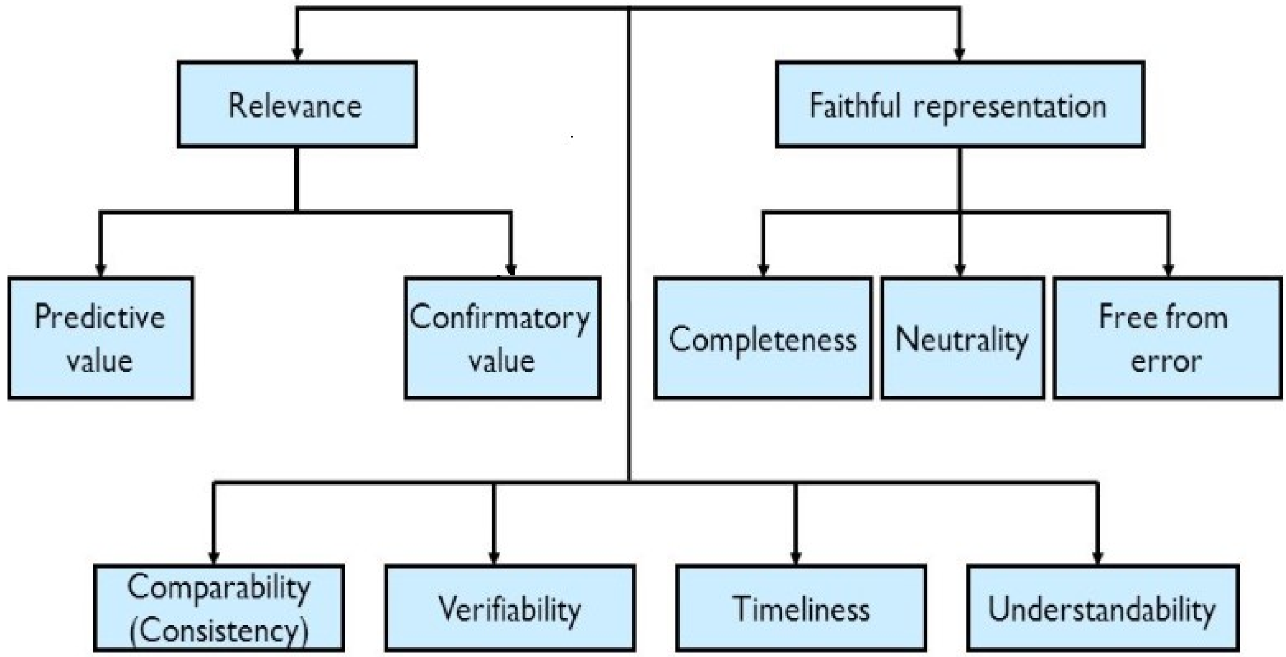


Fig. 2. IFRS Fundamental qualitative characteristics (designed according to Conceptual Framework information)

Fundamental characteristics are binding characteristics of quality reporting of financial information. If the financial statement of the company does not satisfy at least one of them, it cannot be considered of high quality. Information is **relevant** if it can affect users reporting during decision-making, wherein financial reporting of companies must not only and not so much represent the impact of events and facts that have occurred, but also contain forward-looking information. To this end, Conceptual Basis includes the concept of predictive value and confirmatory value. Thus, the information has **predictive value** if it helps users to assess possible effects of past, present and future events on future cash flows and **confirmatory value** if it helps users to compare current performance and results from their preliminary estimates. Predictive value and confirmatory value of the financial information are interrelated concepts. Often, the information that has predictive value also has confirmatory value. Thus, the relevance of reporting should be determined by the following criteria: focus of the reporting to the future; availability of forecast information; the availability of information about the company and the potential risks; disclosure of the information on the influence of important past events on the company.

Representational faithfulness, also known as reliability, is the extent to which information accurately reflects a company's resources, obligatory claims, transactions, etc. Information about the economic phenomenon is believed to be truly presented in the financial reporting if it has three characteristics: completeness, neutrality and the absence of errors. **Completeness** means availability of all the information about the economic phenomenon (including descriptions and explanations necessary), which is required by users for the comprehensive understanding. In some cases, a full description can, among other things, include information on the essential facts on the current status of certain assets and description of circumstances that might affect their condition. **Neutrality** in presenting information means that the information should not underestimate or overestimate the role of a phenomenon, or do any accents that exaggerate or diminish the role of the event, or manipulate opinion of users of financial statements in any other way. At the same time, information neutrality does not imply that this information is of any value or presentation does not pursue any goals. The concept "**free from error**" implies not merely the absence of errors in the description of phenomenon, its misstatements or omissions, but requires absence of errors in the process of preparation. It should be noted that there are considered two types of errors that are possible in the accounting and reporting: 1) professional error, which is usually rare and can be done, for example, when reflecting economic transactions in the accounting system; 2) a system error that usually applies to all operations of the same type. Note that the absolute compliance of the reporting with all three characteristics of the truthful reporting is achievable in practice very often. However, every company should strive to ensure that the indicators prove true presentation of its financial statements to the maximum extent possible.

The criteria for assessing the quality of reporting in terms of true presentation may be: completeness and quality of information in the submitted financial statements describing the assumptions and estimates made by the company; completeness and clarity of the notes to the reporting of the disclosed information regarding accounting principles used by the company for the preparation of financial statements; uniformity and completeness of the presented reporting information on favourable and adverse economic effects.

Comparability, verifiability, timeliness and understandability – these four characteristics are intended to enhance the quality of relevant, truthful information submitted. The concept of "improving quality characteristics" means that these characteristics do not replace the fundamental characteristics. Even if improving characteristics of financial statements are of high level, but at the same time the financial reporting doesn't present relevance or true presentation, it may not be of high quality. Let's look at what each of the features represents and how a company can evaluate the quality of its reporting acc. to IFRS.

The usefulness of financial reporting of the company for its users increases if the information contained in it is **comparable** with similar information for other periods (for other reporting dates). In addition, this information should be comparable with similar information contained in the reports of other enterprises of the industry. Comparability is necessary to perform regarding the disclosure of accounting principles and description of events and phenomena. To enhance the comparability of financial statements, the company can provide in the notes comparative data for certain important performance indicators for several periods. Even if such disclosures are not required by the standards, this step will be appreciated by the users of financial statements. To make the reporting information comparable, the company should be guided by the requirements of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" or Lithuanian company – Business Accounting Standard 7 "Accounting Policies, Changes in Accounting Estimates and Corrections". Compliance with these standards provides comparability of indicators of past periods with the data of the reporting period.

The possibility of **verification** can be direct or indirect. The criterion for direct verification is external visualization and criterion for the indirect verification is analysis of used models, techniques, rules and methodologies. For example, physical recalculation of residues of goods in the warehouse is an example of direct verification and arithmetic calculation of the cost of storage residues - an example of indirect verification.

Timeliness means that financial information about the company became available to users before it lost its value for making decisions.

The financial statements of the company should be **understandable** to users who have sufficient knowledge of business and economic activities of the company and analyze financial statements with due diligence and interest. The company shall strive to ensure that the information is presented in a simple, clear and structured manner.

Attention should be paid also to the structure of the financial reporting. The logical and consistent structure of the reporting notes helps to make of work of the investors easier while conducting a comparative analysis of the reporting with the reporting documents of other companies, and comparability of the information is very essential for decision making by investors.

According to the Conceptual Foundations, possibility of checking means that independent experts with different expertise and different experiences can reach a consensus on the fact that these financial reporting is presented truthfully. In terms of IASB (International Accounting Standards Board), ability to check the quality of reporting does not mean that every phenomenon reflected in the statements can be expressed in only one specific value. Perhaps it will be a number of values or a specific value of a certain number.

In order to understand if the information in the notes to the reporting is disclosed correctly, these notes can be submitted for assessing to the several experts in the company. Then the conclusions that experts make based on notes should be compared. If the conclusions are identical in content and are in line with what the company saw as the need to disclose in the notes, then the information is clear.

Financial reporting must meet many criteria to be considered of high quality. The quality of the financial information has great importance for different groups of users, especially for members of the business process, because the quality of information determines the viability of future strategic decisions. The role of management in the preparation of high-quality reporting is increased.

2.2. Selection of quality assessment methods for financial reporting

There is no one generally accepted method of assessing the quality of financial reporting. Researchers either develop their own methods for evaluating the quality of financial reporting, or use tools offered by other researchers. The choice of method depends on the quality of the financial reporting that researchers evaluate. In some cases (Chen et al., 2011; Biddle et al., 2009), several methods are used, as each proposed method of valuation of financial reporting usually focuses on one or two aspects and leaves aside some important aspects considered by the researchers and evaluates only individual elements rather than the whole (Van Beest et al., 2009).

Various authors (Muller, 2014; Yurisandi and Puspitasari, 2015) of the empirical studies carried out justify the claim that the transition to International accounting standards has improved the quality of financial reporting. The authors presented the results of the research, evaluating the changes in the qualitative characteristics distinguished by the International Accounting Standards Board (IASB) as a result of the transition to international accounting standards. IASB distinguishes between two qualitative characteristics of financial statements – the relevance and reliability of financial information, and four complementary – comparability, comprehensibility, fairness and timeliness. Lithuanian researchers (Kundelienė, 2009; Rudžionienė and Juozapavičiūtė, 2013; Legenzova, 2016) in its research, the quality of financial statements is also assessed on the basis of these qualitative characteristics.

In addition to the characteristics listed above, researchers use other methods to assess the quality of financial reporting. They claim that the quality of these reports is best assessed on the basis of value relevance (Muller, 2014; Palea, 2013), earnings management (Martinez-Ferrero, 2014; Lim, Lee and Chang, 2015; Wang, Zhu, and Hoffmire, 2015) accounting conservatism (Martinez-Ferrero, 2014) and other aspects.

This diverse and uneven choice of methods for assessing the quality of financial statements shows that the quality of reports can be assessed in many different ways, but with such a wide variety of possible valuation methods, users of financial reporting information have the problem of what methods are most appropriate to choose. In the scientific literature, only single and fragmented attempts can be made to review the methods of evaluating the quality of financial statements. Usually limited to the analysis of only one method (Palea, 2013) or only a few methods are evaluated irrespective of others (Van Beest et al., 2009). There is no argument why the authors chose one or another method for the study and what its advantage over other methods.

To assess the quality of financial statements, scientists use a variety of assessment indicators, develop assessment models, and offer methods. Researchers call differently for the proposed financial statement quality assessment instruments, do not use a unified term. In the opinion of the author of this project, the proposed instruments for evaluating financial reporting are best referred to as methods, as the instruments proposed by researchers essentially describe the sequence of actions that contribute to the objective of assessing the quality of financial reporting. Various instruments for evaluating the quality of financial reporting are found in the analyzed scientific literature. In most cases, the quality of financial reporting is assessed using qualitative characteristics, value-for-money and revenue management techniques. Less often, scientists suggest evaluating accounting conservatism (Martinez-Ferrero, 2014) or the recognition of timely losses (Barth, Landsman and Lang, 2008), audit results (Qingliang et al., 2016), transparency of financial disclosure (Biddle et al., 2009), the quality of internal control and the probability of error occurring (Garrett, Hoitash and Prawitt, 2014). Thus, there is no one generally accepted method for assessing the quality of financial statements.

IASB identifies the relevance and reliability of financial statements with the key features (Figure 1) of the quality of financial statements. The information provided by the financial statements is relevant when it can influence the decisions of the user of this information (Palea, 2013). According to the IASB, relevant information is valuable in enabling it to validate and anticipate company performance. Van Beest et al. (2009) suggests measure the level of relevance of the financial statements by evaluating how the information in these reports helps predict and assess future events, potential business opportunities, and whether the reports are prepared impartially and whether the information in those reports confirms decisions or forecasts made in previous financial periods. Renkas et al. (2015) states that the relevance of the financial statements is determined by the following criteria: the benefits of reporting for future forecasts; the ability to obtain sufficient information from the financial statements about the company and the possible risks and disclosures about the impact of significant past events on the entity. The International Accounting Standards Board states that the financial statements are reliable if it fully reflects the actual economic situation of the entity, does not contain material errors or deviations and is neutral. Van Beest et al. (2009) also names three further conditions for the reliability of the financial statements. In the opinion of the authors, the likelihood that the reports are reliable increases if: 1) they are an unqualified audit report; 2) a comprehensive report of the company's board; 3) In accounting policies, the choice of accounting principles is clear and logical. Yes, according to the authors, additional assumptions are created to believe that the financial statements are reliable. Thus, relevant and reliable information in the financial statements is of benefit to its user as it allows for the adoption of fair information based decisions.

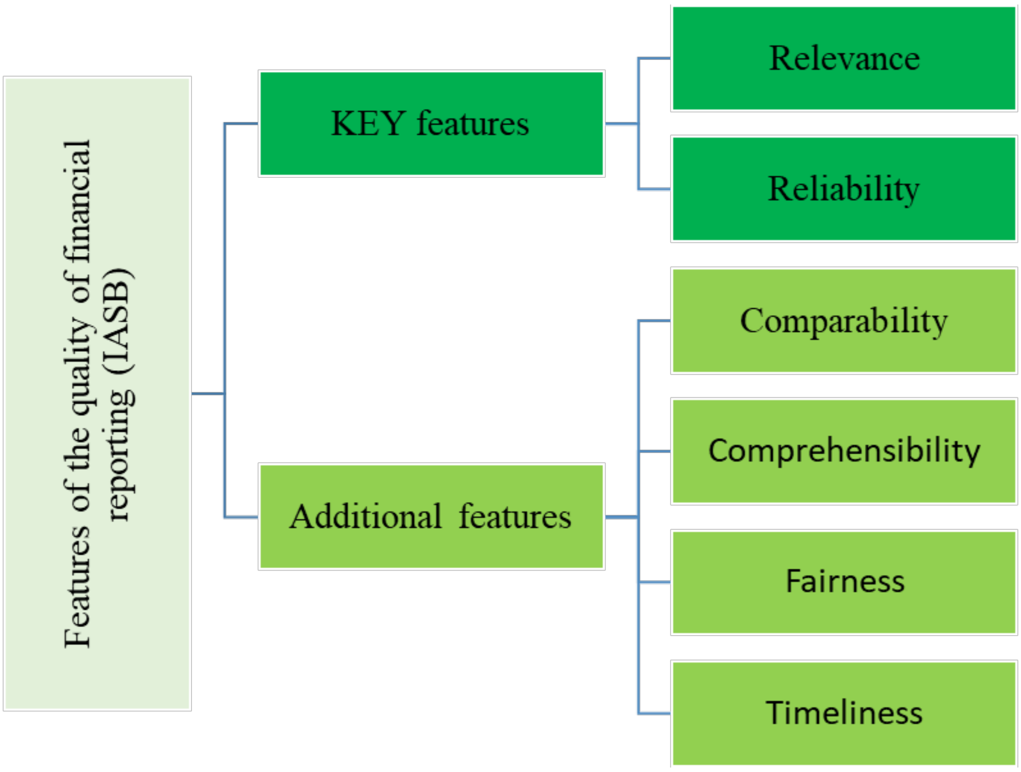


Fig. 3. Features of the quality of financial reporting identified by IASB (designed according to IASB information)

The IASB identifies four additional qualitative characteristics of the financial statements – comparability, comprehensibility, fairness and timeliness (Figure 3). The user of the financial statement information must be able to compare the data of different periods of the same company and the data of different companies. The financial statements must be comprehensible to the user of the information. This may involve not only verbal but also graphical presentation of information. The information can be classified and presented in a clear and concise manner, with the minimum of specific terms being used (Van Beest et al., 2009). The level of fairness of the financial statements shows whether the information in the reports is prepared in accordance with the rules listed in the accounting documents. Financial statements are timely if the information they provide is still useful to the consumer making the decision, that is, if the information is not out of date. Additional qualitative characteristics can improve the usefulness of financial statement information for decision-making, but cannot be used separately from key characteristics when assessing the quality of financial statements.

The method for assessing qualitative characteristics is the method most commonly used by researchers in the scientific literature examined. Researchers use it when trying to assess how the quality of the financial statements has changed when companies have moved to international accounting standards and whether the information provided in the financial statements meets the requirements of these standards.

The second most common method used by researchers is the income management method. In a broad sense, this method evaluates the level of revenue management in an enterprise by applying the applicable rules and legal framework. Scientists using this method (Wang et al., 2015; Rodrigo, 2009; Martinez-Ferrero, 2014) states that revenue is a key element of financial statements, and therefore the level of revenue management is crucial for investor decision-making, and the level of revenue management reflects the quality of financial statements. Business executives can influence the level of income management in the company by their decisions and thus manipulate the results. Therefore, the higher the level of revenue management, the lower the quality of the financial statements, because the financial statements with a high level of revenue management distort the true position of the company. The proponents of this method of evaluating the quality of financial statements argue that income management indicators are easy to calculate using financial statement information. According to critics of the method, this method only indirectly reflects the quality of financial statements, analyzes only income.

Another fairly popular method in the studies under review is the value-for-money approach, which is most commonly used to assess the quality of financial statements of listed companies. With this approach, researchers assess how a company's financial statements reflect the company's market value. The use of the Value Assurance approach as a method for evaluating the quality of financial statements is based on the fact that key users of financial statement information are investors and their decisions are reflected in the value of the companies' shares (Muller, 2014). Palea (2013) maintains that fair value accounting ensures higher transparency of financial statements, while transparency in turn leads to the accuracy of the accounting information and a more accurate reflection of the company's value in the market. Therefore, in the authors' opinion, the use of the value-for-money approach in assessing the quality of financial statements is the most appropriate.

Research also shows that the quality of financial statements often depends on the characteristics of the entity that carries out the audit. The independent valuation of independent auditors confirms that the financial statements are reliable and useful (Qingliang et al., 2016). For example, there is a widespread belief that Big Quarter audit firms have more resources and experience in financial auditing, therefore the quality of the services they provide is better, which leads to a higher degree of auditing of financial statements, in which case companies are less interested in manipulating accounting. In addition, evidence has been found that the higher the firm's fees for the audit, the more open it is, and the auditor's recommendations, corrects inaccuracies in the financial statements, which improves its quality. The quality of the financial statements could also be assessed by making a statutory audit of the financial statements of the company based on its indicators and the auditor's opinion.

Summarizing the methods of evaluating the quality of financial statements proposed in the scientific literature, it can be stated that researchers usually choose assessment methods depending on the purpose of evaluating the quality of financial reporting. In all sources, researchers highlight the importance of the information provided by financial reporting and the benefits to users of this information. If consumers seek to assess the compliance of the financial statements of the company concerned with International accounting standards, they are encouraged to use qualitative characteristics, revenue management, value assurance and accounting conservatism techniques. In cases where investment decisions are made on the basis of financial statement information, the researchers prefer to use methods of revenue management, value-for-money, transparency of financial information disclosure. To assess the effectiveness of attracting funding, researchers use methods of evaluating audit results, transparency of financial information, internal control levels, and government transparency. In the case of company performance evaluation, it is proposed to use methods of income management, value assurance, accounting conservatism and transparency of financial information disclosure. In order to assess the confidence in the financial statements provided by the company, researchers offer methods of revenue management, internal control and probability of error assessment.

Visualization of discussed quality assessment methods for financial reporting is shown in the Figure 4.

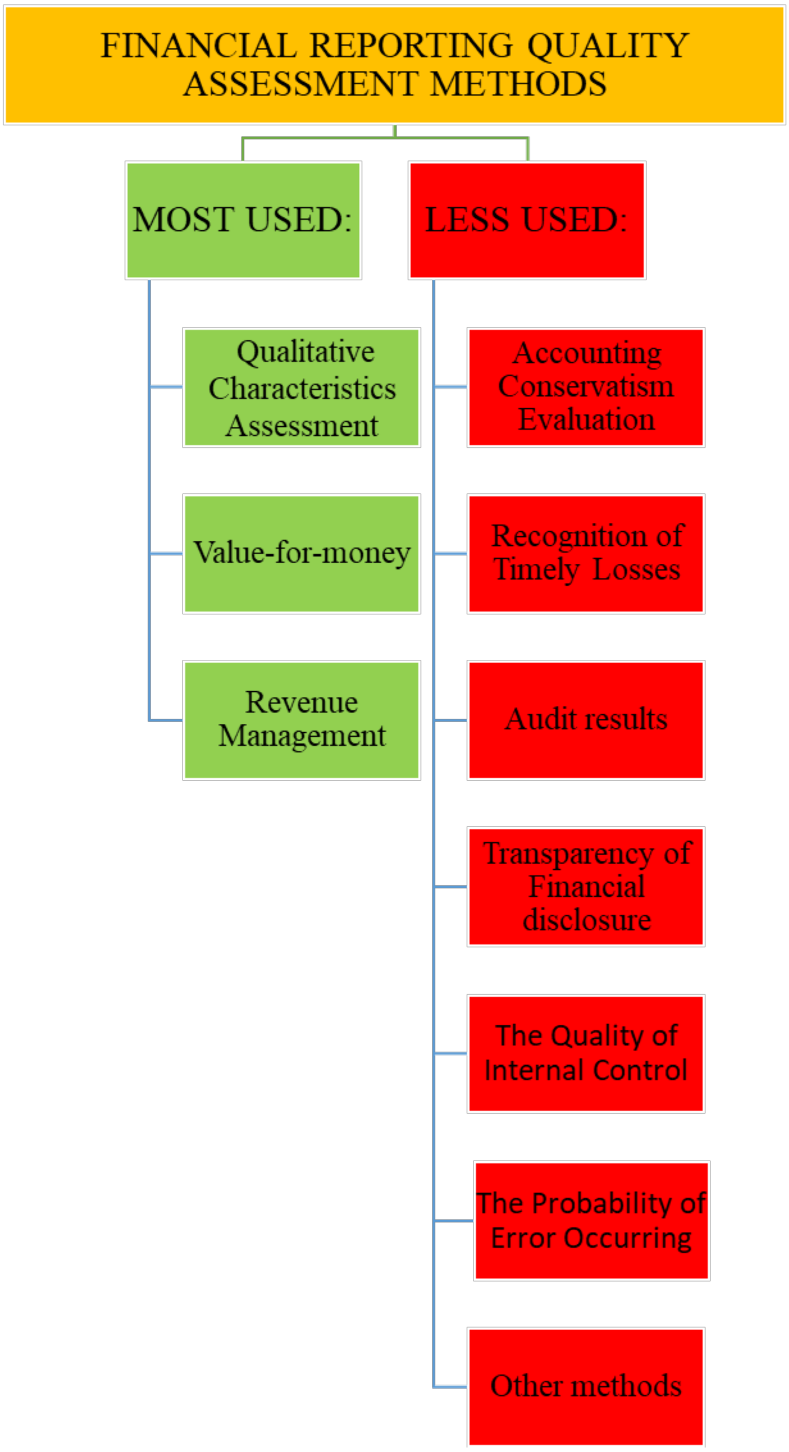


Fig. 4. Visualization of quality assessment methods for financial reporting

2.3. Theoretical assumptions for financial reporting quality assessment

Thus, the quality of an entity's financial statements may be influenced by many different factors depending on the valuation approach chosen. Because financial statements are prepared in accordance with legislation and adopted standards, regulatory changes can affect the quality of the entity's reporting. From the discussed methods for assessing the quality of the financial reporting (section 2.2.), it was chosen to discuss more widely and to conduct the study based on the following two:

1. Evaluation of the quality of the financial reporting in terms of reliability (audit aspect);
2. Evaluation of the quality of financial reporting in accordance with business accounting standards.

These approaches have been chosen taking into account the fact that the project will aim to assess the compliance of the financial reporting of the selected company with the business accounting standards.

2.3.1. Assessment of the quality of the financial statements in terms of reliability (audit aspect)

Nowadays, the issue of the quality of financial statements and the importance of auditing for it and its users is of particular importance. The growing interest and public debate is determined by the ever-changing business environment and the growing need for accountability and disclosure by consumers. Reliable and useful financial statements are indispensable for the management of the company, both to ensure a high level of accountability to the shareholders and to monitor their market and the performance of other companies. Given that the reliability of financial statements is one of the quality characteristics of the financial reporting, the audit is one of the tools to increase the credibility of it.

Audit of financial statements is a verification of the truthfulness and fairness of financial statements and related documents and accounting records, and an evaluation of general accounting principles (Mackevičius, 2009). As mentioned earlier, companies must carry out audits if they exceed certain indicators according to the law (section 1.1.1., page 13).

The auditor's report is one of the most important audit documents with the highest evidential value and is most recognized by all users of information (Mackevičius, 2009). Therefore, auditors have a great responsibility to write the right conclusion. The auditor's conclusion with regard to consumers is an objective independent financial statement study that increases the value and reliability of the entity's financial statements, which increases consumer confidence in the information provided and reduces the risk for investors.

As stated by International Standards on Auditing (hereinafter – ISA), the auditor's opinion may be (Figure 2):

- Unqualified;
- Unqualified with emphasis of matters;
- Qualified;
- Adverse;
- Disclaimer.

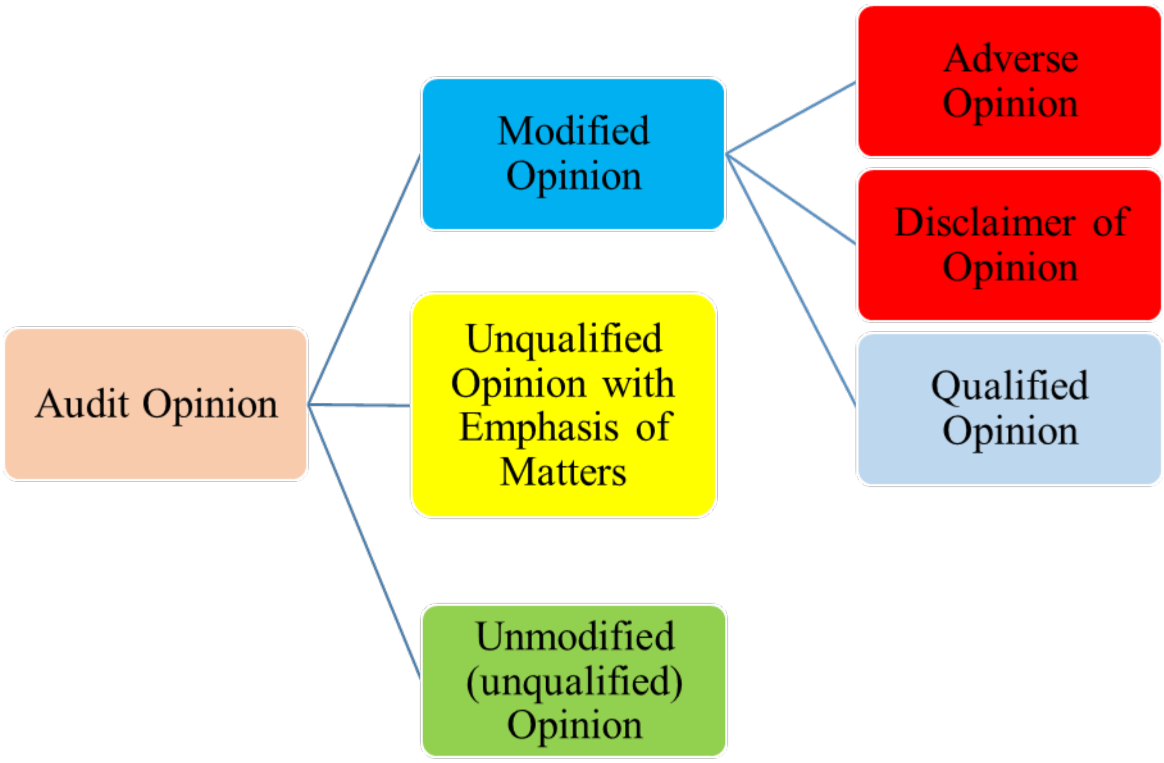


Fig. 5. Variety of auditor opinion (designed according to ISA)

An **unqualified** opinion or an unmodified opinion by a foreign author is disclosed when the auditor concludes that the financial statements present fairly or in all material respects, the financial information of the audited entity in accordance with the applicable financial reporting framework. In other words, if the auditor obtains sufficient evidence to prove the fairness of the financial statements and does not find any distortions, he makes the following opinion. I. Paukštienė (2012) noted that if an audit is conducted for the first time in an enterprise, it may not normally expect an unqualified audit conclusion, as the auditor, without being involved in the beginning and end of the audited year, is usually not in a position to verify the validity of the inventories of tangible assets by other means. However, there are exceptions.

Unqualified with emphasis of matters. ISA 701 states that the main purpose of presenting the key things is to increase the auditor's report's informative nature by ensuring the transparency of the audit. This is additional information for users of financial statements that can be used to understand the most important things about the audit of financial statements. It should be emphasized that information about things does not change the unqualified opinion expressed. The paragraph section states that there are significant misstatements due to the appropriateness and adequacy of the information disclosed in the financial statements, the auditor doubts about the continuity of the entity's operations or wishes to emphasize other significant matters.

A **qualified** opinion is issued when the auditor decides that an unqualified opinion cannot be expressed, for example, when the scope of the auditor's work is limited or the management of the audited entity disagrees about the acceptability of the selected accounting policy, the application of its methods, and sufficient disclosure of financial statements.

The auditor shall disclose an **adverse** opinion when the limitation of its scope of work is so significant that the auditor was unable to obtain sufficient evidence and is therefore unable to express an opinion on the financial statements.

A **negative opinion (disclaimer)** is expressed if the disagreement with management regarding the adequacy of accounting policies or disclosure of the financial statements has a material effect on the financial statements and is widespread, and the auditor concludes that the conditional opinion cannot disclose the misleading and incomplete nature of the financial statements.

In summary, the auditor's report is a significant result of the auditor's work, reflecting the auditor's opinion on the entity's financial statements and an integral part of the financial statements. The auditor's opinion on the company's financial statements affects both the external information users and the company itself. Credit institutions shall take into account the views of credit institutions when granting loans to investors and respond to the market. Because the company is related to these stakeholders, the auditor's opinion also affects it and its financial statements. The auditor's conclusion with regard to consumers is an objective independent financial statement study that increases the value and reliability (including quality) of the entity's financial statements, which increases consumer confidence in the information provided, and reduces the risk for investors. Therefore, both the company and other parties are interested in a good quality assessment of the company's financial statements, which is reflected in the auditor's report and has a direct link to the quality of the financial reporting.

2.3.2. Assessment of the quality of financial reporting in accordance with business accounting standards

In total, 39 business accounting standards have been developed in Lithuania and are currently in force (1-29, 31, 32, 34, 35, 37-41, 43). They define accounting rules for entities of various forms and destinations - private limited liability companies, unlimited civil liability legal entities and small partnerships, collective investment undertakings and pension funds, credit unions, and so on. As the project will analyse the quality of the financial reporting (Corporate Governance Form) of the Group companies, it has been chosen to describe and broaden the standards that can be used in the light of available information about the company (financial statements) and on which the quality of the financial statements will be assessed model. These standards would include: BAS 1, BAS 2, BAS 3, BAS 4, BAS 5 and BAS 6.

The standards BAS 1-BAS 5 have already been mentioned in 2.1.1. part of the project. Based on these, the quality of the financial reporting can be evaluated according to whether the financial reporting is prepared and meets their requirements.

Here, the purpose of **BAS 1** is to establish the financial reporting framework and requirements that allow the financial statements to be compared with the financial statements of the same entity for prior periods and other entities. It sets out the procedures for the presentation of financial reporting, the composition of the financial statements and the general requirements for the content of the reports. According to this standard, the quality of the financial reporting could be assessed according to whether the composition and content of the financial reporting complies with BAS 1 (Table 2).

The purpose of **BAS 2** is to determine how information about the company's assets, equity and liabilities should be provided and grouped. This standard sets out the balance sheet arrangements and forms, except for consolidated and some special-purpose balance sheets. In accordance with this standard, the quality of the balance sheet (form and content) and of its preparation (as one of the financial statements), could be assessed.

The objective of **BAS 3** is to determine how information on an enterprise's earnings, costs and performance should be presented and grouped during the reporting period, according this standard, the profit and loss account (form and content) in the financial reporting and the quality of its preparation as one of the components of the financial reporting, including the quality of the full financial reporting, could be assessed.

The purpose of **BAS 4** is to determine how information about changes in equity of an enterprise during the reporting period should be presented and grouped. As this Standard establishes the procedure for the preparation of a statement of changes in equity of an enterprise, and, except for the consolidated and some reports of changes in equity of certain specialty entities presented in the accounting standards of those entities, this Standard could be used to measure statement of changes in equity (form and content) and quality of its creation as one of the components of the financial reporting, including the quality of the full financial reporting.

BAS 5 objective - specify how information about changes in cash and cash equivalents of an enterprise should be reported during the reporting period. This standard establishes a cash flow statement, a cash flow classification for cash flows from operating, investing and financing activities, reporting formats, except for consolidated and some special-purpose cash flow statements. Thus, according to this standard, the cash flow statement (form and content) provided by the financial reporting and its quality as one of the components of the financial reporting, including the quality of the full financial reporting, could be assessed.

In assessing the expected empirical study in this project with the financial statements of a group of companies, more criteria for assessing the quality of financial statements could be discussed in the analysis and based on the requirements of **BAS 6** for explanatory notes and disclosure. The purpose of BAS 6 is to identify the information that needs to be presented in the notes to the financial statements of an enterprise in order to better explain the data presented in other financial statements and to disclose additional significant information not disclosed therein. The Standard sets out the general requirements for the notes[18] of small, medium and large entities, except when other business accounting standards require or permit other disclosures. In accordance with the provisions of the Business Accounting Standards, an explanatory note must be prepared by the companies based on the set of financial reporting to be provided (Table 2).

The visualization of the explanatory note composition according to BAS 6 is shown in Figure 6:

[18] The provisions of BAS 6 Chapters III, IV and V apply to all categories of entities. The provisions of Chapters VI and VII apply only to the preparation of an explanatory note for a medium, large and public-interest entities.

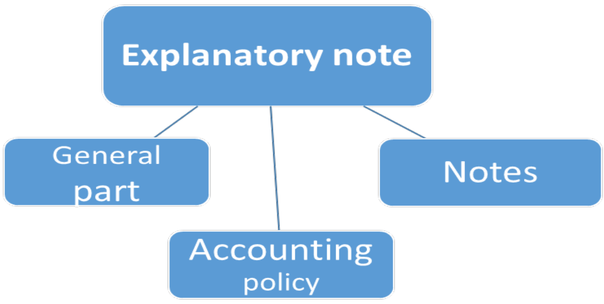


Fig. 6. Composition of Explanatory note by BAS 6 (designed according to BAS 6)

What companies should describe in the general and accounting parts of the explanatory note shows Figure 7.

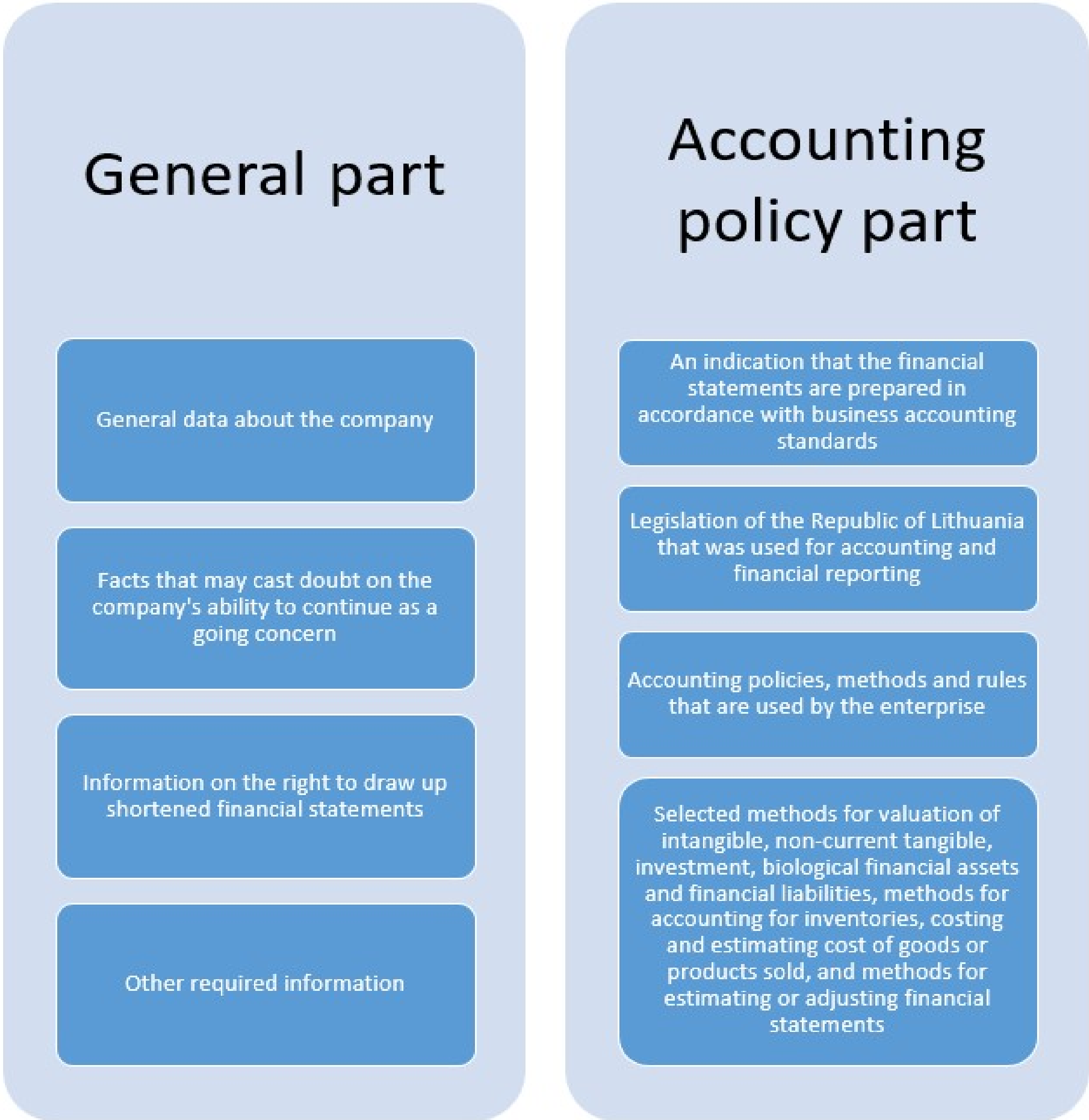
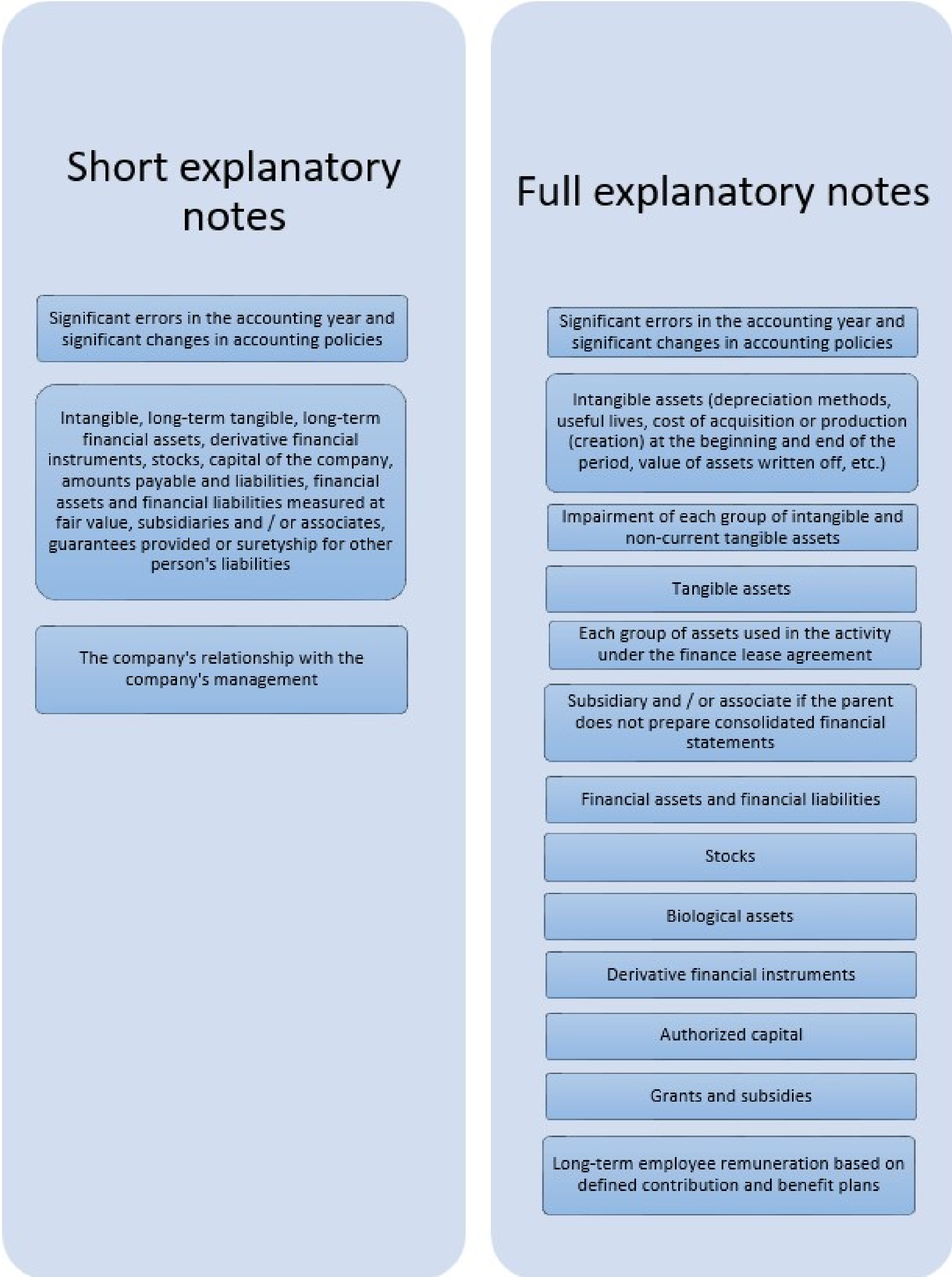


Fig. 7. Content of the general and accounting part of the explanatory note (designed according to BAS 6)

In the quality research of financial reporting, evaluating the quality of the data presented in the shortened explanatory notes (notes part), all disclosures required could be subdivided into 3 large separate parts, while evaluating the quality of the data provided in the full explanatory notes could divide all disclosures into 20 more detailed parts. The disclosure required is shown in Figure 8.



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Continuation of Fig. 8

Fig. 8. Explanatory notes (notes part) required disclosure (designed according to BAS 6)

Thus, taking into account the above-mentioned BAS requirements for the content and form of financial reporting, the empirical part of the project will accordingly assess the quality of the financial reporting of the analyzed companies according to whether the financial reporting have been prepared in accordance with the requirements of BAS (1, 2, 3, 4, 5), as well verifying that all relevant disclosures required by the disclosures (BAS 6) have been disclosed.

2.4. Theoretical model for quality assessment of financial reporting

Thus, when evaluating the author's chosen and previously discussed methods of quality assessment of financial reporting (by reliability and six BAS) and summarizing them, it would be possible to put together a theoretical model of quality assessment of financial reporting, based on which the empirical study of the quality of financial reporting would be performed in part 4 of the project. Quality of financial reporting, in this case, will be assessed in terms of compliance. Model visualization is presented in Figure 9. The model also displays the relevant IAS together with the BAS, thus enabling the model to be applied and used by international companies that prepare their financial reporting in accordance with IAS.

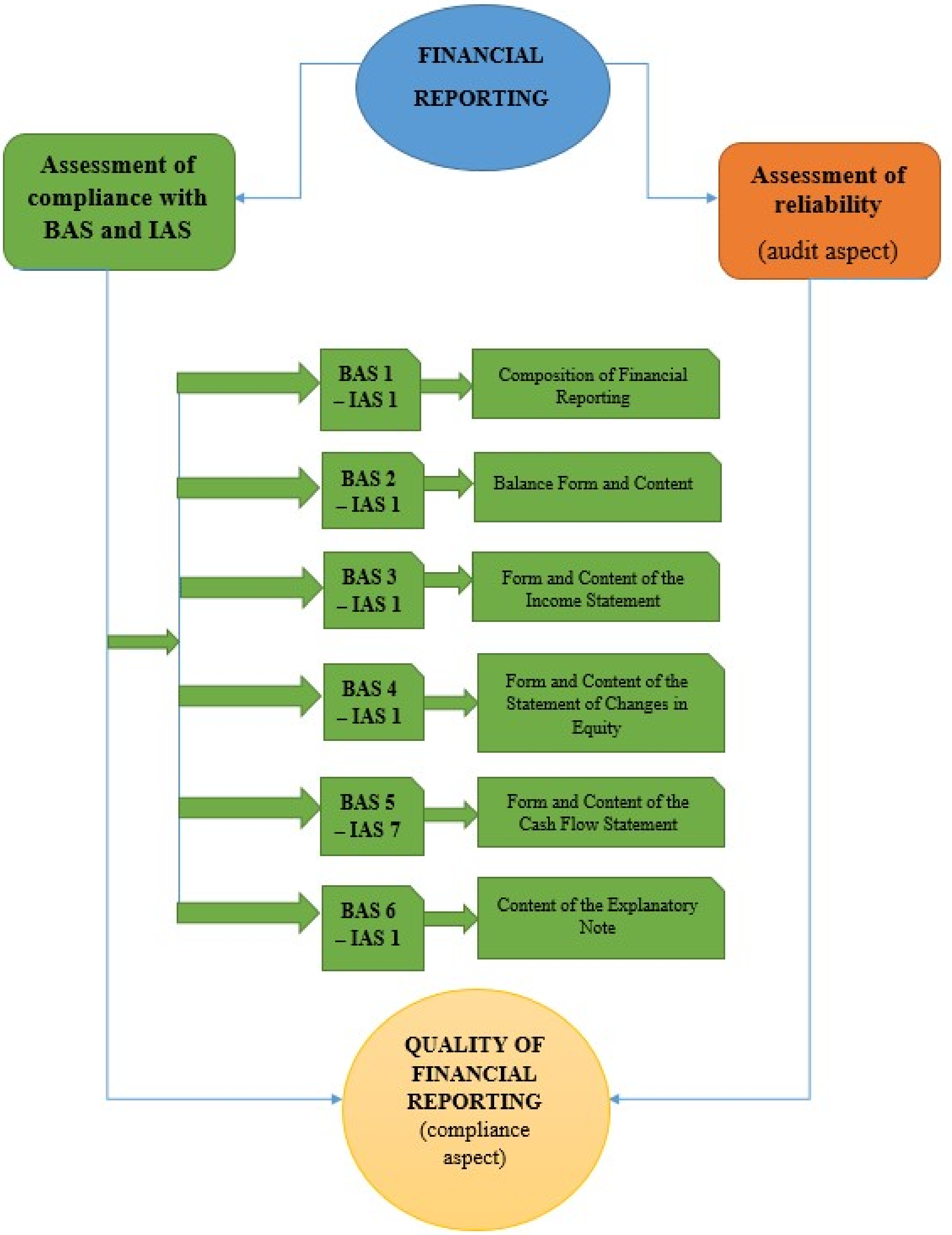

Fig. 9. Theoretical model for quality assessment of financial reporting

As shown in Figure 9, the quality of the financial reporting is assessed on the basis of the two valuation aspects:

- Reliability assessment based on the obligation to perform a statutory audit and the audit opinion obtained;

- assessment of compliance with the BAS requirements for the content, format and disclosure of financial reporting.

Table 3 shows the process of assessment the quality of the financial reporting with the stages of the model and the assessment criteria.

Table 3. The process of the quality assessment of financial reporting (composed by the author based on the information provided by standards and laws)

No	Theoretical source	Assessment criteria	Financial reporting quality (%) **
1.	BAS 1	Composition of financial reporting	
2.	Law[19]	Obligation to carry out a statutory audit	
3.	ISA	Audit report received	
4.	BAS 2	Balance form and content*	
5.	BAS 3	Form and content* of the income statement	
6.	BAS 4	Form and content* of the statement of changes in equity	
7.	BAS 5	Form and content* of the cash flow statement	
8.	BAS 6	Content of the explanatory note:	
8.1.	BAS 6	general part	
8.2.	BAS 6	part of accounting policy	
8.3.	BAS 6	part of notes (shortened explanatory note)	
8.4.	BAS 6	part of notes (full explanatory note)	

* - it is assumed that the financial data (in terms of content) in the balance sheet, the income statement, the statement of changes in equity and the cash flow statements are accurate and correct, and there is no further analysis of the content requirements of these reports under the BAS, as it would be over-extended and would require much more time and volume.

** - provided information quality (percentage of match).

In the author's opinion, it would be important not only to find out whether the financial statements meet one or other criteria, but also how much weight in the final evaluation of the company's financial reporting it should be expressed as a percentage. For example, for the audited firms, the author would suggest 50 percent (half of the total rating)[20] for the reliability assessment, the remainder being assessed at 50 percent, where BAS 1 - BAS 5 assessment would be 7 percent and BAS 6 - 15 percent. This could be based, for example, on the assumption that a company with an unqualified audit opinion would be likely to have its financial reporting prepared in accordance with the requirements of the BAS, as there is a feedback - the auditor for the financial reporting that do not comply with BAS requirements, the unqualified opinion will probably not be written and vice versa. And if the company does not commit and does not comply with the requirement to perform the audit, then there are reasonable grounds for suspecting that the company is hiding something or management is completely incompetent on the issue of financial reporting. Therefore, the quality of financial reporting should decrease significantly. Giving a greater share of the importance of BAS 6 could also be justified by the fact that, in the explanatory note, the disclosure of the facts or facts relating to the entity would have had a significant adverse effect on the quality of the financial

[19] Law of the Republic of Lithuania on financial reporting by undertakings, Art. 24., p. 2.
[20] The Group external auditor would give the same weight in this assessment (Annex 1).

reporting, as it might not mention or conceal significant facts about the company, even affecting its going concert principle. This would be an important signal to the quality assessor of the financial reporting.

In this case, the quality of the financial reporting of unaudited companies should only be assessed against their compliance with the BAS requirements – this assessment could be carried out by the company itself or by other users of the financial reporting. In view of the above-mentioned relatively more significant compliance with BAS 6 requirements, in this case its significance, in the author's opinion, could be 30 percents and the remaining BAS 1-BAS 5 would be 70 percents (14 percent each). The percentages of significance are shown in Table 4.

Table 4. Materiality of the quality assessment criterion of financial reporting

			Materiality of the quality assessment criterion (%)	
No	**Theoretical source**	**Assessment criteria**	**Obligatory audited companies**	**Obligatory not audited companies**
1.	BAS 1	Composition of financial reporting	**7**	**14**
2.	Law	Obligation to carry out a statutory audit	**50**	**-**
3.	ISA	Audit report received		
4.	BAS 2	Balance form	**7**	**14**
5.	BAS 3	Form of the income statement	**7**	**14**
6.	BAS 4	Form of the statement of changes in equity	**7**	**14**
7.	BAS 5	Form of the cash flow statement	**7**	**14**
8.	BAS 6	Content of the explanatory note	**15**	**30**
		Total:	**100**	**100**

Having assessed the quality of each individual assessment criterion by the percentage of materiality, it will be possible to obtain the overall quality assessment of the full financial reporting as a percentage. Visualization of the distribution of materiality of the quality assessment by assessment criteria is presented in Figure 10.

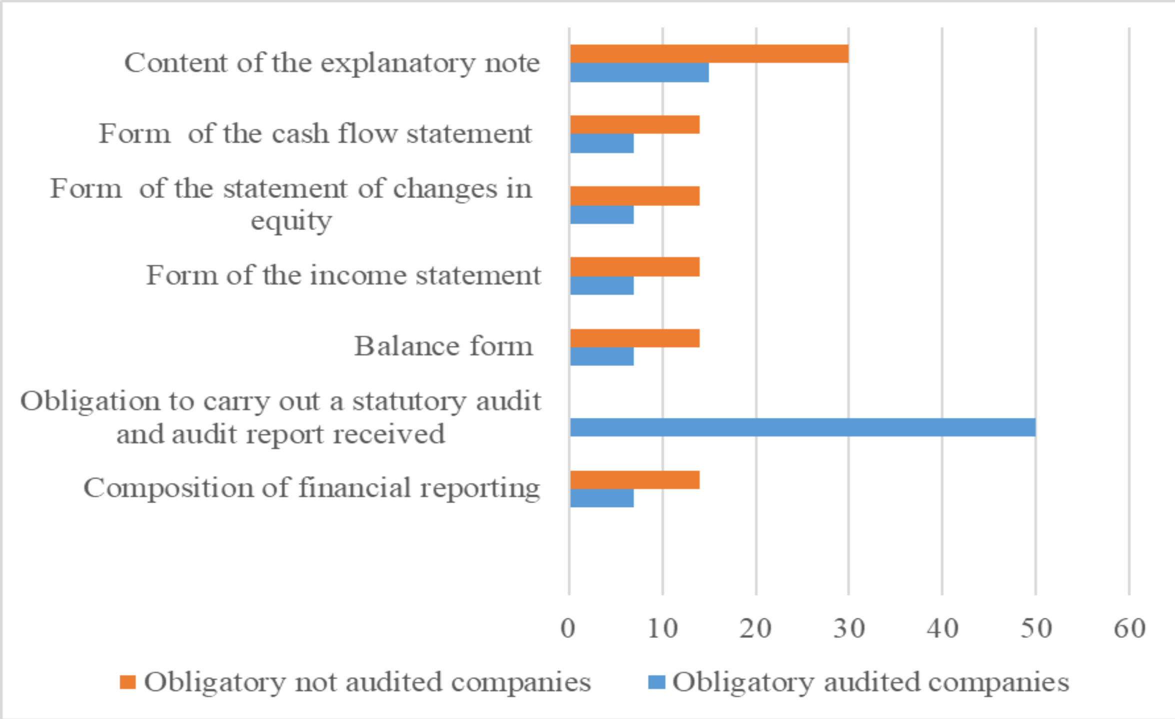

Fig. 10. Distribution of materiality of the quality assessment by assessment criteria (%)

3. FINANCIAL REPORTING QUALITY RESEARCH METODOLOGY

Purpose of empirical research – to evaluate the quality of the financial reporting of the selected companies.

Research tasks:

1. introduce a group of companies involved in the research;
2. conduct and present an interview with the companies' external auditor;
3. analyse the financial reporting of the investigated companies and their quality according to the theoretical model (Figure 9) and the interview performed;
4. assess the results obtained and compare them with previous studies.

Research methods. During the research, the quality of the financial reporting of the selected companies is assessed by verifying their compliance with the requirements of BAS and the Law of the Republic of Lithuania on financial reporting by undertakings, Art. 24, p. 2. (reliability assessment). Thus, the research method was chosen is **case study**.

In Lithuania, as in the rest of the world, the case study studies "gain momentum" in the research of various scientific disciplines: marketing, management, public administration, public communication, political science, sociology and others. According to Stake (2005), case study is a study in which social problems are analysed by examining only one or several instances of their expression. The case study is a research strategy that provides detailed, in-depth investigation of one or more cases based on as many social information sources as possible and applying a wide range of social research methods. If specific theoretical, methodological justification is important in other research strategies, then the case study can only be said to be focused on a particular case. In case studies, it is not very important what methods are chosen - the most important is that they help answer the research questions.

Continuing on the case study method, it should be mentioned that this method is most often integrated into management processes, in order to prepare the best qualified specialists, to develop their ability to apply theoretical management knowledge in practice and to adapt to rapidly changing market conditions. The aim is to develop analytical, decision-making, work in critical and difficult-to-forecast conditions, organizational restructuring, resource utilization optimization, development, individual and team work, cross-cultural activities, diversity management and executive functions. It is through case analysis that more information is transformed into knowledge and more effective knowledge is absorbed. According to Barnes et al. (2004), the main methods used in case analysis are discussion, role play, interview, task completion.

According to Creswell (2003), Denzin and Lincoln (2005) and Stake (2005), the main case study procedures would be the following:

- First, the investigator decides whether the case study is the right strategy for the planned study. Case studies apply only when the investigator can clearly define the boundaries of the case. Usually case studies are chosen to understand, to explain specific cases, to compare several cases;

- the investigator identifies the case or cases. Need to answer questions: Who will become an investigative case: an individual, their group, situation, behaviour or other? How can the boundaries of the case be defined? There are different types of selection that can be used to select a case - the most frequent target selection is applied. Creswell (2003) suggests different cases for selecting a study to reveal more diverse aspects of the problem, process, or event;
- data collection. In case studies, data collection usually takes quite a long time, as the aim is to collect empirical material from as diverse sources of information as possible using a variety of data collection methods. Interviews, monitoring and document analysis methods are commonly used for data collection;
- data analysis. A comprehensive empirical analysis or embedded analysis can be done by gathering a large amount of empirical material. In the analysis, first of all, a detailed description of the case is created, in which the investigator can write the history of the given case, the chronology of events or the like. Descriptive analysis is followed by subject analysis. At this stage of the analysis, the researcher focuses on the analysis of several topics, several subjects. The researcher also analyses the contexts, circumstances, conditions related to the case under investigation. In case of multiple case or multi-case analysis, the researcher first analyses each case individually: describes it, distinguishes the main topics of analysis. The researcher then conducts a thematic analysis of all cases (e.g. looking for recurring topics) and proceeds to the interpretation of the results;
- interpretation of results. At this stage, the researcher outlines the significance of the case study, indicating how the case study has enabled a deeper / broader understanding of the research problem (in the instrumental case study) or how the completed study helped to better understand the unusual, unique case.

Thus, the author, having regard to the above-mentioned scientific justification, definition and scope of the case study, chose to use the case study method for this empirical study of the quality of financial reporting. Also, as one of the complementary parts of the case study and additional sources of information, the author will use an interview in this empirical study.

The case sample. The study will use the data of the Aljansas AIBĖ, UAB[21], Group financial reporting for 2017 and audit reports. A total of 8 companies belonging to a group of companies are investigated. A group of companies with very different business activities and size of companies is explored and should add diversity to the research, as recommended by Creswell (2003). In addition, two of the companies are registered in Latvia, which gives the study an international dimension. One year (2017) was chosen as the author wants to investigate and evaluate the latest and most up-to-date company information (as mentioned earlier, financial reporting forms have changed since 2016 and financial reporting for 2018 have not yet been completed).

Research process. The study process is based on the above case study research procedures (Table 3). The first step is the presentation of the group Aljansas AIBĖ, UAB. The principal parent

[21] A **joint-stock company** (JSC, in Lithuanian – UAB) is a business entity in which shares of the company's stock can be bought and sold by shareholders. Each shareholder owns company stock in proportion, evidenced by their shares (certificates of ownership). Shareholders are able to transfer their shares to others without any effects to the continued existence of the company (https://en.wikipedia.org/wiki/Joint-stock_company).

company and other companies forming the group of companies (principal activity, domicile, number of employees, number of votes) are presented.

The analysis of the financial reporting of the companies of the group is continued, based on the information collected by the author (financial reporting of 2017, interview with the external auditor of the company). It is assumed that the financial data (in terms of content) in the balance sheets, the profit and loss accounts, the statement of changes in equity and cash flow statements are accurate and correct, therefore, the content requirements for the content of these reports under the BAS are not further analysed as it would be too extensive and the inquiry would require much more time and volume. The analysis is carried out in accordance with theoretical model (Figure 9) and its process (Table 3) to assess the quality of the financial reporting of companies.

Finally, the last part of the study provides an assessment of the results obtained and their comparison with previous studies.

4. FINANCIAL REPORTING QUALITY RESEARCH RESULTS AND PROPOSALS

4.1. Case study description

The project author chooses to evaluate the quality of the Aljansas AIBĖ Group financial reporting for 2017 according to the selected assessment methods and criteria.

Aljansas AIBĖ Group parent company Aljansas AIBĖ, UAB (at that time called Anakin Invest, UAB, which after reorganization in December 2012 was merged with UAB Aibės Mažmena), established in 14-08-2009. The Group has investments in associated companies in Lithuania and Latvia. The principal activity of the parent company is the management of subsidiaries and the provision of brokerage services. The main activity of the group is wholesale and retail trade, services. Average annual number of employees in the enterprise group in 2017 there were 244 employees and 236 in 2016.[22]

The group of companies in 2017 consisted of 7 group companies (direct control) - 5 of them were based in Lithuania, 2 - in Latvia. The main information of the companies is presented in Table 6.

Table 5. Aljansas AIBĖ Group key information (composed by the author, based on the 2017 companies' information contained in the financial reporting)

Company name	Place of residence	Main activity	Average number of employees 31-12-2017	Number of votes, % 31-12-2017
Aljansas AIBĖ, UAB	Lithuania	Management of subsidiaries and provision of brokerage services	51	Parent
MTLT valdymas, UAB	Lithuania	Real estate and movable property management	1	100
UAB Gakis[23]	Lithuania	Real estate for rent	1	100
Aibės prekyba, UAB	Lithuania	Retail	51	100
SIA MT Latvia	Latvia	Real estate and movable property management	1	100
UAB Senasis miestas	Lithuania	Real estate for rent	1	99,33
SIA Latvijas Neatkarigo Tirgotaju Kooperacija	Latvia	Wholesale and retail trade	37	92,77
UAB Aibės logistika	Lithuania	Wholesale trade	106	56,61

The structure of the Group is shown in Figure 11.

[22] Data are taken from the parent company's consolidated explanatory notes for 2017.
[23] Subsidiary MTLT Valdymas, UAB, in December 2007 acquired a subsidiary UAB Gakis (100 per cent of votes). In this way, the parent company has acquired indirect control over the acquired company, and therefore it is in 2017 consolidated with other group companies.

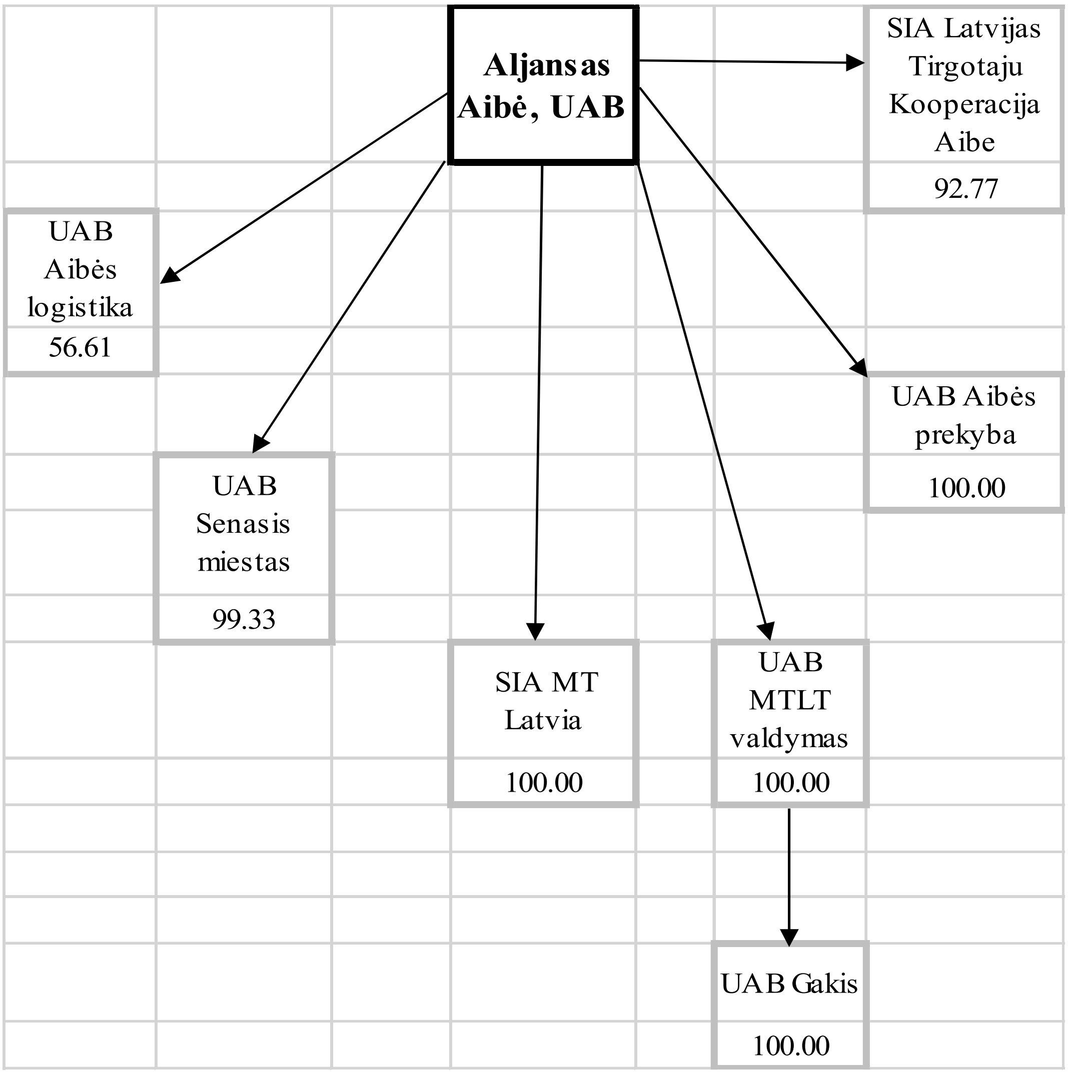

Fig. 11. Aljansas AIBĖ, UAB, Group structure with the share of votes

Figure 11 shows all the related companies that make up the Group. The largest company of the subsidiaries - UAB Aibės Logistika, the smallest - UAB Gakis, which is indirectly controlled by Aljansas AIBĖ, UAB. UAB Senasis miestas is the smallest company of directly controlled companies.

4.2. Case study analysis

The first quality assessment will be carried out by evaluating **the composition of the financial reporting of the group companies in accordance with the requirements of legal acts** and Table 4 criteria. The attribution of each group company to a particular category of companies is shown in Table 7. Latvian companies will be evaluated in the context of Lithuania.

Table 6. Group companies' categorisation (composed by the author, based on the 2017 companies' information contained in the financial reporting)

Company name	Value of the assets indicated on the balance sheet (31-12-2017), EUR	Net sales during the reporting financial year (2017), EUR	Average annual number of employees by the list during the year 2017	Category names
Aljansas AIBĖ, UAB	22 866 615	19 885 411	51	**medium-sized**
MTLT valdymas, UAB	2 936 320	516 528	1	**very small**
UAB Gakis	130 667	5 020	1	**very small**
Aibės prekyba, UAB	491 151	4 107 937	51	**small**
SIA MT Latvia	271 136	54 480	1	**very small**
UAB Senasis miestas	123 655	25 970	1	**very small**
SIA Latvijas Neatkarigo Tirgotaju Kooperacija	5 250 047	19 392 256	37	**medium-sized**
UAB Aibės logistika	19 299 888	89 201 093	106	**medium-sized**
Aljansas AIBĖ, UAB, consolidated statements	46 969 303	129 383 462	244	**large**

Thus, after the analysis of the group companies according to the 2017 sales revenue, assets of 2017, and the average number of employees in the year 2017, we can see that we have 4 very small, one small and 3 medium-sized companies in the Aljansas AIBĖ group[24]. This distinction is illustrated in Figure 12.

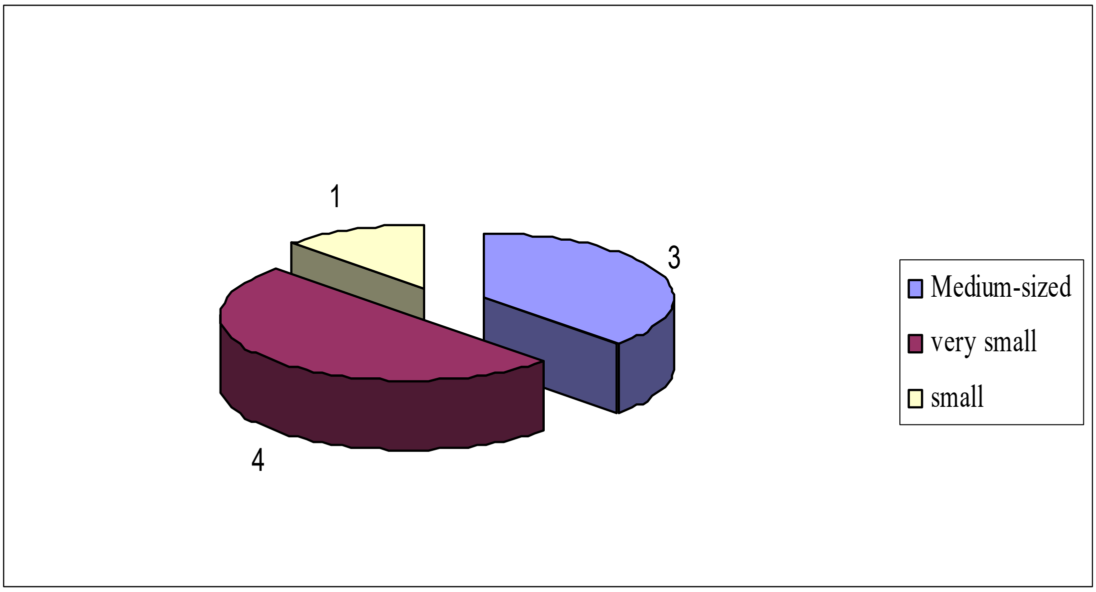

Fig. 12. The size distribution of the companies

Continuing to assess the quality of the financial reporting, it will continue to verify that the reports of the Group companies actually compiled and presented to the Registry Centre are made in

[24] Except for a consolidated company, as it is a combination of more individual reports than a separate entity.

accordance with the requirements applicable to the entity assigned to the relevant category. This is shown in Table 7.

Table 7. Composition of the financial reporting and its compliance with legal requirements (composed by the author, based on the group's financial reporting for 2017 and the information in Table 2)

Company name	**Company category**	**Balan-ce** yes/no**	***complies (+/-)****	**Profit (loss) state-ment** yes/no**	***complies (+/-)****	**Cash flow state-Ment** yes/no**	***complies (+/-)****	**Statement of changes in equity** yes/no**	***complies (+/-)****	**Expla-natory note** yes/no**	***complies (+/-)****	**Annual report** yes/no**	***complies (+/-)****
Aljansas AIBĖ, UAB	Medium-sized	YES	+	YES	+	YES	+	YES	+	YES	+	YES	+
MTLT valdymas, UAB	very small	YES	+	YES	+	NO	+	**YES**	**-**	YES	+	NO	+
UAB Gakis	very small	YES	+	YES	+	NO	+	NO	+	NO	+	NO	+
Aibės prekyba, UAB	small	YES	+	YES	+	NO	+	YES	+	YES	+	NO	+
SIA MT Latvia	very small	YES	+	YES	+	**YES**	**-**	**YES**	**-**	YES	+	YES	+
UAB Senasis miestas	very small	YES	+	YES	+	NO	+	**YES**	**-**	YES	+	NO	+
SIA Latvijas Neatkarigo Tirgotaju Kooperacija	Medium-sized	YES	+	YES	+	YES	+	YES	+	YES	+	YES	+
UAB Aibės logistika	Medium-sized	YES	+	YES	+	YES	+	YES	+	YES	+	YES	+

*„+” – complies with legal requirements; „ -“ – does not comply with legal requirements.
**„yes” – the specified report is drawn up; „no”– no report is made.

Thus, according to the analysis presented in Table 7, it appears that the financial reporting of the group of companies in question correspond, in principle, to the requirements for their classification as a result of their size and attribution to a particular category. The smaller Latvian company and 2 Lithuanian companies compile and provide surplus information, forming a statement of changes in equity, which should not be set up for very small enterprises, and the same Latvian company (very small, UAB MT Latvia) makes a cash flow statement, which according to the Republic of Lithuania does not belong to such an undertaking. On the other hand, the financial reporting of the Latvian company should not be assessed in accordance with the requirements of the legal acts of the Republic of Lithuania, because the law of the Republic of Latvia is applicable for their conclusion. Typically, if additional information is required by the parent company in the consolidated financial reporting of the group, this information is provided by the financiers of other countries to the parent company in addition. When assessing both the above-mentioned case of Latvia and the surplus information provided by Lithuanian companies (MTLT Valdymas, UAB, and UAB Senasis miestas) in the financial reporting, when the statements of changes in equity are additionally made, it would not be appropriate, in the opinion of the author, to reduce the quality of financial reporting for these companies. Quality would actually be affected if certain mandatory information was not provided, but in this case an additional not required report is presented (on the contrary, the quality of the reports could be considered higher). Thus, according to the significance of the assessment criteria in Table 4, the compliance of the financial reporting of all the analyzed companies with the BAS requirements (BAS 1 - BAS 5) could be assessed as maximally as possible by giving 7 or 14 per cent respectively (because the analysis of the statutory audit is not yet completed, the final table will be reported at the end of the study with all the estimates provided).

Continuing to assess the quality of the financial reporting according to their compliance with the statutory requirements, further **assessment of the statutory audit**, which, as mentioned in the first part of the project, is mandatory for the company, when at least two indicators on the last day of the financial year exceed certain amounts, is given (Table 8).

Table 8. Group companies' compliance with statutory audit requirements (composed by the author, based on group of companies 2017 financial statements and legal information)

Company name	**Value of the assets indicated on the balance sheet (31-12-2017), EUR**	***Exceeds 1 800 000 Eur?***	**Net sales during the reporting financial year (2017), EUR**	***Exceeds 3 500 000 Eur?***	**Average annual number of employees by the list during the year 2017**	***Exceeds 50?***	**Statutory audit (+/-)***
Aljansas AIBĖ, UAB	22 866 615	yes	19 885 411	yes	51	yes	+
MTLT valdymas, UAB	2 936 320	yes	516 528	no	1	no	-
UAB Gakis	130 667	no	5 020	no	1	no	-
Aibės prekyba, UAB	491 151	no	4 107 937	yes	51	yes	+
SIA MT Latvia	271 136	no	54 480	no	1	no	-
UAB Senasis miestas	123 655	no	25 970	no	1	no	-
SIA Latvijas Neatkarigo Tirgotaju Kooperacija	5 250 047	yes	19 392 256	yes	37	no	+
UAB Aibės logistika	19 299 888	yes	89 201 093	yes	106	yes	+

*„+" –statutory audit is required and is done; „-" – statutory audit is not required.

Thus, as can be seen in Table 9, the statutory audit should be carried out in four companies in the group (Aljansas AIBĖ, UAB, UAB Aibės prekyba, SIA Latvijas Neatkarigo Tirgotaju Kooperacija, UAB Aibės logistika). All the above-mentioned companies, except one (UAB Aibės prekyba), which belongs to the category of small enterprises, belong to the category of medium-sized enterprises. After reviewing the financial reporting of these companies, their audit has been carried out and all audit opinions were unqualified. This is another criterion to say, the quality of the reports of this group of companies is good (in terms of this criterion).

Further, by continuing to assess the quality of the financial reporting of the Aljansas AIBĖ Group, the disclosure of mandatory information in the Explanatory Notes of the Group (specified in the theoretical part of the project) will be assessed. The quality study will analyze the information presented in the financial reporting[25] and evaluate their quality according to the compliance of the submitted information with the requirements of the BAS 6. The results are shown in the Tables 09, 10, 11. Each table will show the matched percentages that will eventually be recalculated to the overall quality percentage at the end of the study.

Thus, after analyzing the **general part** of the explanatory notes of the companies, it turned out that all the companies provide enough information according to the requirements of BAS 6, but the following shortcomings were still identified:

- Aibės prekyba, UAB, in the general part, provides not the average number of employees of the financial year required by BAS 6, but simply the number of employees on the last day of the financial year - the percentage of the quality of the financial reporting for this item is reduced to 90;
- SIA Latvijas Neatkarigo Tirgotaju Kooperacija the structure of the explanatory notes does not comply with the requirements of BAS 6, for example, the general part does not specify the average number of employees for the financial year, but as will be shown in the follow-up study, it is included in the notes section. The reason for this is that the financial reporting of this Latvian company is prepared in accordance with the Laws of the Latvian Republic on Accounting, on the Annual Reports and Latvian Accounting Standards[26], therefore, the quality of the financial reporting due to the mismatch of the structure is not reduced as the required information is provided and is not lacking;
- in the general part of MTLT valdymas, UAB, there is no information about the subsidiary UAB Gakis acquired in 2017 (the author is familiar with the information of the companies because he works in the group of companies and can evaluate certain undisclosed facts) - the percentage of the quality of financial statements for this item is reduced accordingly to 80;
- in the general part of UAB Senasis miestas there is no information on the right of the company to prepare the shortened financial reporting - the percentage of the quality of financial reporting for this item is reduced to 0;
- SIA MT Latvia the general part does not contain information on the average number of employees (this information is not included in the notes section as done in another Latvian company) - the percentage of the quality of financial reporting for this item is reduced to 80; this company, although entitled to draw up the shortened financial statements but prepares it in full. The structure of the explanatory notes of this company does not comply with the requirements of BAS 6 for the same reasons as another Latvian company.

On the basis of the analysis of the general part and the identified deficiencies, a table of compliance of the explanatory notes to the general part with the quality estimates is created. All points, except for revealed deficiencies, are evaluated at 100 percent (Table 9).

[25] The smallest group company UAB Gakis doesn't prepare explanatory note, because it depends to very small enterprise category and has chosen not to write explanatory notes.
[26] Information from the financial reporting of SIA Latvijas Neatkarigo Tirgotaju Kooperacija.

Table 9. Group companies' financial reporting compliance with BAS 6 *general part* requirements assessment (composed by the author, based on the group's financial reporting for 2017 and BAS 6)

Company name	1. General data about the company (%)*	2. Facts that may cast doubt on the company's ability to continue as going concern (%)*	3. Information on the right to draw up shortened financial reporting (%)*	4. Other required information (%)*	Total quality average % ((1+2+3+4)/4) or (1+2+4)/3)
Aljansas AIBĖ, UAB	100	100		100	**100**
MTLT valdymas, UAB	80	100	100	100	**95**
Aibės prekyba, UAB	90	100		100	**97**
SIA MT Latvia	80	100		100	**93**
UAB Senasis miestas	100	100	0	100	**75**
SIA Latvijas Neatkarigo Tirgotaju Kooperacija	100	100		100	**100**
UAB Aibės logistika	100	100		100	**100**

* - provided information quality (percentage of match).

An analysis of the **accounting policies part** of companies (Table 10) has shown that all companies provide all the information they need. It is worth mentioning that Latvian companies, where according BAS 6 should be part of the accounting policy, prepare a report for management, while reporting part of accounting policies at the beginning of the notes section. This, as mentioned earlier, is related to different requirements of BAS in Lithuania and Latvia.

Table 10. Group companies' financial reporting compliance with BAS 6 *accounting policy* part requirements assessment (composed by the author, based on the group's financial reporting for 2017 and BAS 6)

Company name	1. An indication that the financial reporting is prepared in accordance with BAS (%)*	2. Legislation of the Republic of Lithuania that was used for accounting and financial reporting (%)*	3. Accounting policies, methods and rules that are used by the enterprise for the financial reporting (%)*	Total quality average %
Aljansas AIBĖ, UAB	100	100	100	**100**
MTLT valdymas, UAB	100	100	100	**100**
Aibės prekyba, UAB	100	100	100	**100**
SIA MT Latvia	100	100	100	**100**
UAB Senasis miestas	100	100	100	**100**
SIA Latvijas Neatkarigo Tirgotaju Kooperacija	100	100	100	**100**
UAB Aibės logistika	100	100	100	**100**

* - provided information quality (percentage of match).

Finally, an analysis of the **notes part** of the companies' explanatory notes showed that all the companies also provided sufficient information in accordance with the requirements of the BAS 6, but one shortcoming was found – in the full explanatory notes were disclosed by the companies about not detected impairment, but none of them did not mention the fact that the impairment test was performed - the percentage of the quality of the financial reporting for this item is reduced to 0.

Table 11. Group companies' financial reporting compliance with BAS 6 *notes* part requirements assessment (composed by the author, based on the group's financial reporting for 2017 and the information in BAS 6)

BAS 6 required disclosures in the notes part	Aljansas AIBĖ, UAB*	MTLT valdymas, UAB**	Aibės prekyba, UAB**	SIA MT Latvia**	UAB Senasis miestas**	SIA Latvijas Neatkarigo Tirgotaju Kooperacija*	UAB Aibės logistika*
1. Significant errors in the accounting year and significant changes in accounting policies (%) ***	100	100	100	100	100	100	100
2. Intangible assets (depreciation methods, useful lives, cost of acquisition or production (creation) at the beginning and end of the period, value of assets written off, etc.) (%) ***	100	100	100	100	100	100	100
3. Tangible assets (%) ***	100	100	100	100	100	100	100
4. Each group of assets used in the activity under the finance lease agreement (%) ***	100					100	100
5. Impairment of each group of intangible and non-current tangible assets (%) ***	0					0	0
6. Subsidiary and / or associate if the parent does not prepare consolidated financial statements (%) ***	100	100	100	100	100	100	100
7. Stocks (%) ***	100	100	100	100	100	100	100
8. Long-term employee remuneration based on defined contribution and benefit plans (%)	100					100	100
9. Grants and subsidies (%) ***	100	100	100	100	100	100	100
10. Authorized capital (%) ***	100	100	100	100	100	100	100
11. Biological assets (%) ***	100					100	100
12. Derivative financial instruments (%) ***	100	100	100	100	100	100	100
13. Financial assets and financial liabilities (%) ***	100	100	100	100	100	100	100
14. Income, expenses, changes in foreign exchange rates, income tax (%) ***	100	100	100	100	100	100	100
15. Related persons (%) ***	100	100	100	100	100	100	100
16. Significant items in the financial statements (%) ***	100	100	100	100	100	100	100
17. Concession contracts (%) ***	100					100	100
18. Joint activity (%) ***	100					100	100
19. Provisions, contingent liabilities and assets, contingent events (%) ***	100					100	100
20. Construction and other long-term contracts (%) ***	100					100	100
Total quality average %:	**95**	**100**	**100**	**100**	**100**	**95**	**95**

*company prepares full explanatory note.
**company prepares shortened explanatory note.
***provided information quality (percentage of match).

Thus, following the assessment of the quality of the financial statements of the group of companies according to the criteria chosen in the project, they can be systematized and expressed as a percentage of the quality assessment (Table 12 and Figure 13). For this assessment was used Table 5 from the theoretical model and the results of the quality study from tables 09-11 (for the assessment of content of the explanatory note).

Table 12. Group companies' financial reporting assessment (%)

Assessment criteria for financial reporting quality	Aljansas AIBĖ, UAB assessment	MTLT valdymas, UAB assessment*	Aibės prekyba, UAB assessment	SIA MT Latvia assessment*	UAB Gakis assessment**	UAB Senasis miestas assessment*	SIA Latvijas Neatkarigo Tirgotaju Kooperacija assessment	UAB Aibės logistika assessment
Composition of financial reporting	7	14	7	14	33	14	7	7
Obligation to carry out a statutory audit	50		50				50	50
Audit report received								
Balance form	7	14	7	14	33	14	7	7
Form of the income statement	7	14	7	14	34	14	7	7
Form of the statement of changes in equity	7	14	7	14		14	7	7
Form of the cash flow statement	7	14	7	14		14	7	7
Content of the explanatory note	14,75***	29,50	14,85	29,30		27,5	14,75	14,75
Total:	**99,75**	**99,50**	**99,85**	**99,30**	**100**	**97,50**	**99,75**	**99,75**

*company doesn't require statutory audit.

**very small company that only prepares balance and income statement (meets all requirements).

***calculation example: (100+100+95)/3*0,15.

As can be seen from the results of the case survey, the quality of the financial reporting of the group of companies is really high (each exceeds 97 %), both in the overall context of the group and in each group company individually. When assessing the compliance of the financial reporting with the individual assessment criteria, it can be seen that all of the criteria in the group financial reporting correspond to 100 %, except for the content of the explanatory note. The quality of the financial reporting of unaudited companies, can be said, is similar to the quality of the financial reporting of the audited companies.

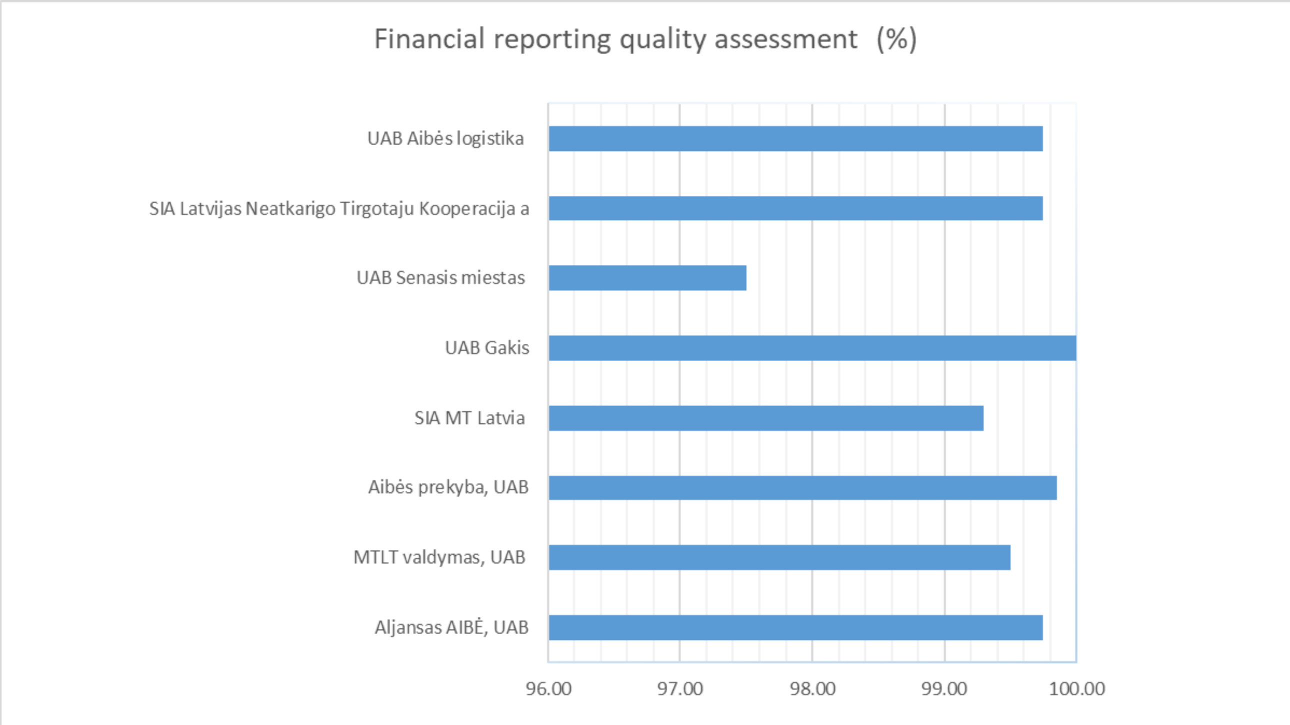

Fig. 13. Group companies' financial reporting assessment (%)

4.3. Interview with company external auditor and its results

2019 April 29 on the initiative of the author of the project, an interview was conducted with Roberta Krivičienė (UAB Audifina), external auditor of the Group. UAB Audifina has been auditing the Group since 2013. Starting 2017, auditor Roberta Krivičienė signs the audit reports of the Group (except financial reporting of UAB Aibės logistika and Latvian companies, which signs other auditors). The purpose of the interview was to obtain additional information on the quality of the financial reporting of the group of companies, which could be compared with the results of the survey.

At the beginning of the interview, it was important for the project author to identify, whether auditor Roberta has noticed significant changes in the preparation of the financial reporting of a group of companies during these years and how would she assess the quality of the financial reporting for this group of companies from 2013 till now. According Roberta, "As the persons responsible for financial reporting have changed during this period, according to their competence and level of responsibility, the quality of the financial reporting has changed. In the last couple of years, I have distinguished myself as a year of significantly improved quality". Compared to other audited companies, "In the last 2 years, I would like to see reports prepared competently and responsibly, which <…> need to make little minor adjustments, what happens quite rarely". "For five years, the financial reporting was prepared in accordance with the BAS. There were no doubts about the audit report. If there were "rebates" on disclosures, they were completely irrelevant and did not affect the audit report". During these five years of auditing this Group, the company always received an unqualified audit opinion, which, according Roberta, "has a big weight and tells us a lot about the quality of the company's financial reporting, as we check out <…> whether the financial reporting was prepared in accordance with the BAS".

According Roberta, financial reporting is high quality, if it is “prepared in accordance with accounting standards and laws, the forms of the financial reporting <...> comply with the mandatory forms, the auditor should not ask for significant corrections (this depends on the competence and responsibility of the financial statements maker)”.

Regarding auditor’s recommendations to the management of the Group regarding the future quality of the financial reporting,” The greatest willingness and dream of auditors in all audits in general is that financial reporting should be made directly from the general ledge that coincide with analytical data, i.e. the financial reporting would not make transfers from one article to another. We will also share this desire and dream with you. Concerning the preparation of the consolidated financial reporting, we would like to see a more responsible approach to them, i.e. adjustment of all companies in the group that are consolidated, to the person performing the consolidation in a timely manner”.

The correctness of the results of this study is confirmed by the interview taken by the author from the external auditor of the group of companies and the opinion expressed by the auditor about the quality of the financial reporting of the group (high quality was confirmed). It is important to mention, that the auditor further distinguishes and emphasizes the human factor in the preparation of financial reporting as crucial for the preparation of high quality financial reporting.

4.4. Discussion and research limitations

Thus, following the assessment of the quality of the financial reporting of the Aljansas AIBĖ Group, based on six BAS, the statutory audit aspect and the interview with group external auditor made, the author received a very high financial quality assessment. Interestingly, the quality of the financial reporting of Latvian companies, even in accordance with the requirements of Lithuanian legislation, does not fall behind the quality of the financial reporting of Lithuanian companies. The conclusion is that Lithuanian and Latvian requirements for the set of financial reporting are very similar and close.

With regard to similar quality reports on financial reporting conducted recently, mention could be made of the Financial Reporting Survey of 100 selected companies, organised by the LBAA of Ministry of Finance of the Republic of Lithuania in 2017, for the purpose of assessing whether companies comply with the financial reporting legislation. The purpose of this study was to assess the quality of the financial reporting prepared and provided by the companies and available to the end user (investor or other interested person) in accordance with the requirements of the Law of the Republic of Lithuania on financial reporting by undertakings, BAS and the accuracy and usefulness of the information published therein. During the study, many inconsistencies were identified and information deficiencies (absence) were required. The study carried out assessed the compliance of all sample companies 'financial reporting with a specific assessment criterion - a specific BAS, a statutory audit requirement, etc., but did not provide a specific quality assessment of the audited companies' financial reporting according to the criteria tested, only a general assessment by category of companies. In the author's opinion, such research is more necessary for statistics and possibly for the understanding of the standards themselves, but not for the final user of the financial reporting because he does not provide any specific information to him.

Barth et al. (2008) concluded that the application of IAS is related to improving the quality of financial reporting. Considering that there are many similarities between IAS and BAS, it can be said that the author of the project showed that the application of BAS is also related to the quality of the financial reporting – the more financial reporting will comply with the BAS, the higher is their quality.

Meanwhile, an 8-company survey conducted in this project is not very complicated, and a structured list of BAS requirements and a visually presented evaluation model could, in the author's view, be used independently even for the user of a financial reporting that does not have a specific knowledge about the financial reporting, but wishes to assess the quality of the financial reporting of certain companies of interest to it. The survey uses publicly available corporate financial reporting data that can be obtained from the Centre of Registers at any time by the information user. Of course, the quality of the financial reporting assessed by an unqualified user will be relative, not absolute, specific knowledge and a deeper approach to the absolute valuation is needed and the possession of additional information about the company (without this information, it is not possible to assess the completeness of the financial reporting and content of the explanatory note). This study is different in comparison to the quality of financial reporting conducted by other researchers because the author evaluates the quality of the financial reporting in terms of form rather than content (only the explanatory note has been evaluated in terms of content). However, as the study has shown, it is possible to obtain a fairly accurate assessment of the quality of the financial reporting, even in the context of the project's methodology. In the case of audited entities, the application of this model should be sufficiently precise as the auditors have already carried out an audit of the financial reporting in accordance with the BAS and other requirements, not only in form but also in content. The results obtained also showed that the financial reporting of the audited companies with an unqualified opinion may not be 100 percent qualitative. Of course, the missing information is not critical to the auditor's opinion, but, therefore, an additional assessment of the audited financial reporting is worthy of attention - auditors as well as people who may be wrong. Just, as claimed Van Beest et al. (2009), one of the factors, increasing probability that the reports are reliable, is an unqualified audit report received.

Thus, corporate financial reporting is an important factor in assessing the financial position, continuity, performance and other economic indicators of the company itself, and the ability to evaluate publicly available financial reporting information and its quality as accurately as possible would be of great benefit to the consumer.

CONCLUSIONS

1. Taking in to account the importance of the financial reporting, aspect of the quality of financial reporting and its concept arises. The higher quality the financial reporting is, the more accurate information about the entity is presented and fairer choices users can make on the basis of this information. On the other hand, quality of financial reporting is still an issue of scientific and practical debates. After quality definitions analysis of Lithuanian and international scholars and accounting bodies, it turned out that the quality of the financial reporting is when it goes in line with the reporting requirements and suitability of the users in meeting their needs and in making decisions. In addition, the quality of the financial reporting directly depends on the quality of the accounting, as it is not possible to prepare high-quality financial statements without high quality accounting information. Quality assurance of financial reporting information is one of the main tasks of financial accounting. Therefore, it is proposed to use the term of the quality of the financial statements (or financial reporting).

The quality of the already prepared financial reporting is usually examined, but there is also no common consensus, which method of measuring the quality of the financial reporting is the best. There is no definition of the quality of a single financial statement, the quality of financial reporting is understood and interpreted differently by users of financial information. Therefore, it is important to find out what are the financial reporting quality assurance measures.

As for the quality of presentation of the financial information, it is necessary to take into account the requirements of the first six BAS. They establish requirements from the financial reporting framework till the shape, form and composition of items for the first four financial statements and non-formalized notes to the financial statements. The quality of the financial information is also measured by a system of indicators that qualify Conceptual Framework as the qualitative characteristics of useful financial information and BAS 1 as the qualitative characteristics of financial reporting. Fundamental qualitative characteristics include: relevance, faithful representation. Improving qualitative characteristics include: comparability, verifiability, timeliness, understandability. Financial reporting must meet many criteria to be considered of high quality. The quality of the financial information has great importance for different groups of users, especially for members of the business process, because the quality of information determines the viability of future strategic decisions. The role of management in the preparation of high-quality reporting is increased.

There is no one generally accepted method of assessing the quality of financial reporting. Researchers either develop their own methods for evaluating the quality of financial statements, or use tools offered by other researchers. After analysis of financial reporting assessment methods used, it turned out that most used methods are Qualitative Characteristics, Value-for-Money and Revenue Managements methods. Less often, scientists suggest evaluating Accounting Conservatism, the Recognition of Timely Losses, Audit Results, Transparency of Financial Disclosure, the Quality of Internal Control and the Probability of Error Occurring. Summarizing the methods of evaluating the quality of financial reporting proposed in the scientific literature, it can be stated that researchers usually choose assessment methods depending on the purpose of evaluating the quality of financial reporting. In all sources, researchers highlight the importance of the information provided by financial reporting and the benefits to users of this information.

2. Thus, when evaluating the author's chosen and previously discussed methods of quality assessment of financial reporting (by reliability and six BAS) and summarizing them, it was created a theoretical model of quality assessment of financial reporting, which includes:

- Evaluation of the quality of financial reporting in terms of reliability (audit aspect);
- Evaluation of the quality of financial reporting in accordance with BAS (BAS 1, 2, 3, 4, 5, 6). These approaches have been chosen taking into account the fact that the project will aim to assess the compliance of the financial reporting of the selected companies with the business accounting standards.

Based on financial reporting of the selected companies, the empirical study of the quality of financial reporting was performed in part 4 of the project. Quality of financial reporting, in this case, was assessed in terms of compliance. The model displays the relevant IAS together with the BAS, thus enabling the model to be applied and used by international companies that prepare their financial reporting in accordance with IAS. Parallel the process of assessment the quality of the financial reporting with the stages of the model and the assessment criteria was created (with weight of each criterion in the final evaluation of the company's financial reporting).

3. During the research, the quality of the financial reporting of the selected companies was assessed by verifying their compliance with the requirements of BAS and the Law of the Republic of Lithuania on financial reporting by undertakings, Art. 24, part 2 (reliability assessment). Thus, the author, having regard to the scientific justification, definition and scope of the case study, chose to use the case study method for this empirical study of the quality of financial reporting. Also, as one of the complementary parts of the case study and additional sources of information, the author used an interview in this empirical study. In Lithuania, as in the rest of the world, the case study studies "gain momentum" in the research of various scientific disciplines: marketing, management, public administration, public communication, political science, sociology and others – this testifies to the versatility of this method. If specific theoretical, methodological justification is important in other research strategies, then the case study can only be said to be focused on a particular case. In case studies, it is not very important what methods are chosen - the most important is that they help answer the research questions.

4. Aljansas AIBĖ, UAB, company group financial reporting quality analysis was conducted according to the model, process and evaluation methodology created. The study used the data of the Aljansas AIBĖ, UAB, Group financial reporting for 2017 and audit reports. A total of 8 companies belonging to a group of companies were investigated. When research tasks were completed, the results of the case survey showed, that the quality of the financial reporting of the group of companies is really high (each exceeds 97 %), both in the overall context of the group and in each group company individually. The quality of the financial reporting of unaudited companies was found to be similar to the quality of the financial reporting of the audited companies. The correctness of the results of this study was confirmed by the interview taken by the author from the external auditor of the group of companies and the opinion expressed by the auditor about the quality of the financial reporting of the group (high quality was confirmed), its tendencies and the offers.

Thus, following the assessment of the quality of the financial reporting of the Aljansas AIBĖ Group, based on six BAS, the statutory audit aspect and the interview with group external auditor made, the author received a very high financial quality assessment. The quality of the financial reporting of Latvian companies, even in accordance with the requirements of Lithuanian legislation, is high and similar to the quality of the financial reporting of Lithuanian companies. The conclusion is that Lithuanian and Latvian requirements for the set of financial reporting are very similar and close.

An 8-company survey conducted in this project is not very complicated, and a structured list of BAS requirements and a visually presented evaluation model could, in the author's view, be used independently even for the user of a financial reporting that does not have a specific knowledge about the financial reporting, but wishes to assess the quality of the financial reporting of certain companies – it could be not only companies financial professionals like chief accountants, internal auditors, CFO, but also others (sales managers, investors etc.). The survey uses publicly available corporate financial reporting data that can be obtained from the Centre of Registers at any time by the information user, therefore the user does not need to have specific company information that is difficult to access. This study is different in comparison to the quality of financial reporting conducted by other researchers because the author evaluates the quality of the financial reporting in terms of form rather than content (only the explanatory note has been evaluated in terms of content). However, as the study has shown, it is possible to obtain a fairly accurate assessment of the quality of the financial reporting, even in the context of the project's methodology. In the case of audited entities, the application of this model should be sufficiently precise as the auditors have already carried out an audit of the financial reporting in accordance with the BAS and other requirements, not only in form but also in content.

The results obtained also showed that the financial reporting of the audited companies with an unqualified audit opinion may not be 100 percent qualitative. Of course, the missing information is not critical to the auditor's opinion, but, an additional assessment of the audited financial reporting is worthy of attention - auditors as well as people who may be wrong. On this basis, further studies could be carried out to establish the link between the quality of financial reporting and audit opinion or the audit firm (for example, the aspect of Lithuanian and international audit firms).

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ANNEXES

Annex 1

Interview with Aljansas AIBĖ Group External Auditor Roberta Krivičienė (UAB Audifina)

29-04-2019

Vilnius

1. First of all, I would like to thank you for agreeing to talk about the quality of the Aljansas AIBĖ Financial reporting.
I would like to start from a certain point of view, since the audit of Aljansas AIBĖ financial reporting has been carried out by your company since 2013. As far as I know, you signed the audit report for this company for the first time in 2018 (when you performed the 2017 financial audit). However, you have been involved in the audit process from the very beginning, i. y. since 2013. Say whether you have noticed significant changes in the preparation of the financial reporting of a group of companies during these years, whether the information was prepared and presented to you by the responsible persons of the company smoothly, without errors, on time, etc.? How would you assess the quality of the financial reporting for this group of companies from 2013 till now? Has its quality been the same (good/not good?) Maybe improved?

As the persons responsible for financial reporting have changed during this period, according to their competence and level of responsibility, the quality of the financial reporting has changed. In the last couple of years, I have distinguished myself as a year of significantly improved quality.

2. How would you assess the quality of the financial reporting of this group of companies in the context of other audited entities?

In the last 2 years, I would like to see reports prepared competently and responsibly, which, in comparison with other audited companies, need to make little minor adjustments, what happens quite rarely.

3. Have you just expressed your opinion on the quality of the financial reporting of the group - in your opinion, what requirements should the group meet in order to obtain a good quality assessment of the financial reporting?

The financial reporting must be prepared in accordance with accounting standards and laws, the forms of the financial reporting must comply with the mandatory forms, the auditor should not ask for significant corrections (this depends on the competence and responsibility of the financial statements maker).

4. You just mentioned that financial reporting should be prepared in accordance with accounting standards and laws. Say if you would have to assess the quality of the (audited) financial reporting of the company in terms of two aspects - reliability (audit) and compliance with BAS requirements, what part would you devote to the assessment of reliability and what compliance with BAS?

I think I would appreciate the same - half of the points I would give to reliability and half to the BAS. The unqualified audit opinion has a big weight and tells us a lot about the quality of the company's financial reporting, as we check out, how I mentioned, whether the financial reporting was prepared in accordance with the BAS.

5. During these five years of auditing this company, the company received an unqualified audit opinion as if it were the idea that the financial reporting should be prepared in accordance with the BAS, with all required disclosures, and so on. Were there no cases of hesitation about the conclusion? Maybe something was missing?

For five years, the financial reporting was prepared in accordance with the BAS. There were no doubts about the audit report. If there were "rebates" on disclosures, they were completely irrelevant and did not affect the audit report.

6. What recommendations would you make to the management of the company regarding the future quality of the financial reporting, perhaps to improve it further?

The greatest willingness and dream of auditors in all audits in general is that financial reporting should be made directly from the general ledge that coincide with analytical data, i.e. the financial reporting would not make transfers from one article to another. We will also share this desire and dream with you.
Concerning the preparation of the consolidated financial reporting, we would like to see a more responsible approach to them, i.e. adjustment of all companies in the group that are consolidated, to the person performing the consolidation in a timely manner.

Thank you for your thoughts and opinions.

Have a nice day!

Annex 2

Aljansas AIBĖ Group Financial Reporting (without explanatory notes):

1. Aljansas AIBĖ, UAB
2. MTLT valdymas, UAB
3. UAB Gakis
4. Aibės prekyba, UAB
5. SIA MT Latvia
6. UAB Senasis miestas
7. SIA Latvijas Neatkarigo Tirgotaju Kooperacija
8. UAB Aibės logistika
9. Aljansas AIBĖ, UAB, consolidated statements