INTERNATIONAL FINANCIAL REPORTING STANDARDS AND FINANCIAL REPORTING QUALITY: AN EMPIRICAL STUDY OF DEPOSIT MONEY BANKS IN NIGERIA

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Abstract

This research study examined the influence of IFRS adoption on financial reporting quality with particular reference to selected deposit money banks in Nigeria. Structured questionnaire was used to collect data from ten (10) selected banks such as United Bank for Africa (UBA), Guarantee Trust Bank, Eco Bank, FCMB Bank, Skye Bank, First Bank, Wema Bank, Diamond Bank, Stanbic IBTC Bank, and Union Bank of Nigeria at their regional headquarters in Ibadan through purposive method. Questionnaire was administered to 6 respondents in each selected banks that are considered to be knowledgeable in accounting and who are familiar with issues of accounting standards. Linear Regression Analysis was used to analyse the data collected. The result revealed that IFRS adoption has significant influence on financial reporting quality. Subsequently, paper recommended that Government has empowered the Financial Reporting Council of Nigeria to create an enabling environment for the implementation of IFRS and to guarantee credible financial reporting regime in both private and public sector entities in Nigeria.

Key words: IFRS, IASB, Financial Reporting, Deposit Money Bank,

Introduction

International Financial Reporting Standards (IFRSs) are set of accounting standards developed by the International Accounting Standards Board (IASB) which becoming the global standards for the preparation of public company's financial statements. According to Odia and Ogiedu (2013), IFRS has brought about accounting quality improvement through a uniform set of standards for financial reporting. IFRS is just more than accounting; rather it is all about the way and manner in which an entity conducts its business after giving consideration to its accounting and financial reporting implications. Many countries such as Brazil, Germany, India, Jamaica, Kenya, Pakistan, South Africa and Turkey have taken a variety of approaches to implementing IFRS so as to bring financial reporting in line with international best practice, to facilitate the comparability of financial reports and fostering investor confidence.

Alistair (2010) defined IFRS as a series of accounting pronouncements published by the International Accounting Standard Board (IASB) to help prepare financial statements throughout the world, to provide and present high quality, transparent and comparable financial information. The preparer of the financial statement in this context are the Accountants in the organizations while the users of financial statement comprises of business managers, directors and other internal and external stakeholders, staff, unions, debenture holders, investors, bankers, Government agencies. The goal of financial reporting is to make information available for decision making (Demaki, 2013). It is important to state that a set of good financial reporting standards, otherwise known as Accounting standards will go a long way in guiding the Accountants to be able to prepare a set of good financial statements that usually encompass the financial performance of the entity over a given period of time on one hand and the financial position of the entity as at a given period on the other hand.

Akpan-Essien (2011) asserted that the adoption of the IFRS will ensure transparency, accountability and integrity in financial reporting that are necessary for addressing the crisis in the financial sector in Nigeria which was responsible for the Nigeria loss of the Foreign Direct Investment (FDI) in the oil and gas sector to countries such as Nigeria.

Nigeria has equally taken a variety of approaches to implementing IFRS. In 2011, Government signed into law, the Financial Reporting Council of Nigeria Act, 2011, with the emphasis that the country's road map to stage adoption of IFRS will start by 1 January, 2012 beginning with publicly quoted companies. Central Bank of Nigeria (CBN) had directed all banks to comply with IFRS in 2010 while Other Public Interest Entities (PIEs) are to converge to IFRS by 1 January, 2013 and small and medium size entities will converge by 1 January, 2014 (NASB, 2011). Government has empowered the Financial Reporting Council of Nigeria to create an enabling environment for the implementation of IFRS and to guarantee credible financial reporting regime in both private and public sector entities in Nigeria. Augustine (2012) confirmed that the adoption of IFRS is to enhancing the competitiveness of the Nigerian capital markets by a way of establishing a single set of globalised and homogeneous," investor friendly, oriented", and internationally recognized accounting standards.

However, according to IASC (1990), the main objective of IFRS is "Globalization of capital markets appear to be the driving force behind the proposed changes and while for this reason they may well suit the purposes of the first world nations, their effect on third world countries could be catastrophic" . This implies that developing countries adopt the IFRS with the primary aim of satisfying their accounting and financial reporting requirements but not purposely helping in the harmonizing of accounting standards. In the same vein Rahaman and Lawrence (2001) agreed that "International

Financial Reporting Standards are “carbon copies” of standards originating from the UK and the USA with strong orientations towards maximizing shareholders wealth rather than the social functions of accounting”.

Based on this background, this paper intends to examine the influence of IFRS adoption on financial reporting quality in Nigeria Deposit Money Banks.

Literature Review

Concept of International Financial Reporting Standards (IFRS)

IFRS is an acronym for International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). IFRS are considered principles-based set of standards in that they establish broad rules as well as dictating specific treatments. The need for a global set of high-quality financial reporting standards has long been apparent. The process of international convergence towards a global set of standards started in 1973 when 16 professional accountancy bodies from Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and the United States of America agreed to form the International Accounting Standards Committee (IASC), which in 2001 was reorganized into the International Accounting Standards Board (IASB). The IASB develops global standards and related interpretations that are collectively known as international financial reporting standards (IFRS). Alistair (2010) defined IFRS as a series of accounting pronouncements published by the International Accounting Standard Board (IASB) to help prepare financial statements throughout the world, to provide and present high quality, transparent and comparable financial information. According to Fasoranti, Adelakun and Joshua (2014), IFRS comprises of International Accounting Standards (IASs); International Financial Reporting Standards (IFRSs); Standing Interpretations Committee (SICs) pronouncements; and International Financial Reporting Interpretations Committee (IFRICs) guidelines. Oyedele (2011) stated that the major difference between IFRS and the local Statement of Accounting Standards (SAS) is that the former is a more robust and principle based set of accounting standards with detailed disclosure requirements. According to the author, the IASB Framework states that the objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions. The objectives and importance of introducing IFRS according to Fowokan (2011), are to work actively with the national setter to bring about convergence of national accounting standards, designed for adoption by profit oriented entities, require that financial statements (FS) give a true and fair view of the financial health of entities, develop a single set of high quality understandable and enforceable global accounting standard that requires transparent and comparable information in financial statements and help participants in various capital markets across the globe to understand financial statements.

Adoption of IFRS in Nigeria

Nigeria has equally taken a variety of approaches to implementing IFRS. In 2010, the Central Bank of Nigeria (CBN), in a bid to integrate the banking system into the global best practices in financial reporting and disclosure, commenced partial adoption of the International Financial Reporting Standards (IFRS) in the Nigerian banking system. The National Insurance Commission (NAICOM) set up a sub-group in 2011 to design a uniform approach to implementation of IFRS in the insurance sector. The Federal Inland Revenue Service (FIRS) issued draft information circular No 2012/ date October, 2012 on the Tax Implication of the Adoption of the International Financial Reporting Standards. To achieve full adoption of the IFRS in Nigerian financial industry, the Nigeria Accounting Standard Board (now FRC) inaugurated a Roadmap Committee of Stakeholders on its adoption. Government signed into law, the Financial Reporting Council of Nigeria Act, in 2011, with the emphasis that the country's road map to stage adoption of IFRS will start by 1 January, 2012 beginning with publicly quoted companies (Uwadiae, 2012). IFRS for SMEs shall mandatorily be adopted as at January 1, 2014. This means that all Small and Medium-sized Entities in Nigeria will statutorily be required to issue IFRS based financial statements for the year ended December 31, 2014. Entities that do not meet the IFRS for SME's criteria shall report using Small and Medium-sized Entities Guidelines on Accounting (SMEGA) Level 3 issued by the United Nations Conference on Trade and Development (UNCTAD). Government has empowered the Financial Reporting Council of Nigeria to create an enabling environment for the implementation of IFRS and to guarantee credible financial reporting regime in both private and public sector entities in Nigeria. Augustine (2012) said that adoption of IFRS is more than just an accounting exercise but system changes for capturing and reporting data, re - appraising the tax cycle (planning, provision, compliance and controversy),aligning of internal and external reporting and ensuring changes in internal audit plans.

Benefits and Challenges of Adopting IFRS

Sadoh (2012) highlighted the benefits of IFRS adoption as follows;

(a) Promotion of the compilation of meaningful data on the performance of various reporting entities at both public and private levels in Nigeria thereby encouraging comparability and reliability of financial reporting in Nigeria.

(b) Assurance of useful and meaningful decisions on investment portfolio in Nigeria.

(c) Attraction of Foreign Direct Investment (FDI);

(d) Assurance of easier access to external capital for local and domestic companies.

(e) Reduction of the cost of doing business across borders by eliminating the need for supplementary information from Nigerian companies.

(f) Facilitation of easy consolidation of financial information of the same company with offices in different countries.

(g) Easier regulation of financial information of entities in Nigeria.

(h) Enhanced knowledge of global financial reporting standards by tertiary institutions in Nigeria.

Gordon (2008) also listed the benefits from adaptation of IFRS over the world as better financial information for shareholders; better financial information for regulators; enhanced comparability; improved transparency of results; increased ability to secure cross-border listing; better management of global operations; and decreased cost of capital. Barth et al. (2006) suggested that accounting quality could be improved with elimination of alternative accounting methods that are less reflective of firms' performance and are used by managers to manage earnings. Demaki (2013) confirmed that IFRS adoption will lead to increase in government revenue as a result of transparency and integrity in reporting. Easier access to capital is also facilitated through IFRS.

Despite the aforementioned envisaged benefits there are still challenges. According to Uwadiae (2012), some companies accountants lack the required skill for IFRS reporting and this has slowed down the reporting process, management of most reporting entities are reluctant to embrace change, lack of co-operation of other departments' outside the finance unit has also been a challenge for some entities and lack of robust accounting system that can accommodate dual reporting in the comparative year for a first time adopter has been a major challenge.

Empirical Review

The overall evidence on the relationship between voluntary IFRS adoption and accounting quality is mixed, although papers applying more recent data generally find relatively better accounting quality among the firms that adopt IFRS (Christensen et al, 2008). For instance, Ogiedu (2013) investigated IFRS Adoption : Issues, Challenges and Lessons for Nigeria and other Adopters. The result concluded that IFRS is perceived as a high quality accounting standard, compared to most local accounting standards, which can help to foster increased comparability of financial statements by investors. Globalization, increased border-listing, attraction of foreign investment and aids, and other institutional factors have been the motivating factors for IFRS adoption. Wilson and Ioraver, (2013) also analyzed the economic consequences of the adoption of International Financial Reporting Standards (IFRS) by Nigeria through an examination of the major obstacles, benefits and attitudes towards its adoption. Sample was drawn from the population of Nigerian academics and practitioners who are familiar with the phenomenon of interest. The hypotheses were tested using frequency analysis, descriptive statistics, Kruskal-Wallis (K-W) and Chi-square tests. The result revealed that effective IFRS adoption would be valuable to preparers, users, auditors, analysts, and standard setters.

Essien-Akpan (2011) also affirmed that adoption of IFRS is a necessity in this era of globalization. Clifford and Demaki (1999) also observed that information (financial report) is the bedrock of effective management function. Without appropriate and reliable IFRS based financial statement, management cannot plan well, hire the right labour, provide effective control and leadership, identify managerial problems, find solutions and take decisions. Nyor (2012) also concluded that Nigerian companies should converge to IFRS in view of the fact that it will enhance better accountability and transparency and improve quality of reporting, despite its cumbersomeness and the initial anticipated problems.

However, Jermakowicz and Gornik (2006) found in their study of 112 EU publicly traded companies listed on major European stock exchanges that the IFRS implementation process was perceived as costly, complex and burdensome. Barth, Landsman and Lang (2006) also found that after IFRS adoption, firms have higher variance of changes in net income, a higher ratio of variance of changes in net income to variance of changes in cash flows, higher correlation between accruals and cash flows, lower frequency of small positive net income, and higher frequency of large losses. Based on this empirical review, it therefore hypothesized that:

H_{01}: IFRS adoption has no significant influence on financial reporting quality

Model Specification

The present study estimates one regression model and the model seeks to investigate the influence of IFRS adoption on financial reporting quality.

The specification of this model is given below;

Financial Reporting Quality = $\beta_0 + \beta_1$ IFRS adoption $_i$ + e $_i$

Methodology

Research Design and Sources of Data

The survey research design was used in this study. It involved the use of a self-designed structured questionnaire in collecting data from ten (10) selected banks such as United Bank for Africa (UBA), Guarantee Trust Bank, Eco Bank, FCMB Bank, Skye Bank, First Bank, Wema Bank, Diamond Bank, Stanbic IBTC Bank, and Union Bank of Nigeria at their regional headquarters in Ibadan through purposive method. Questionnaire was administered to 6 respondents in each selected banks that are considered to be knowledgeable in accounting and who are familiar with issues of accounting standards. In order to establish the reliability of the research instrument, a test - retest method was used. The result of the reliability test was 0.80 showing that the instrument is reliable. In confirming the facts and contents validities of the instrument, it was given to experts for verification. Data collected was analyzed using Linear Regression Analysis with the aid of Statistical Package for Social Sciences (SPSS) software version 20.

Analysis of Data and Interpretation

Table 1: Regression Result

Model Summary					
Model 1	R = 0.950	R^2 = 0.903	Adj.R^2= 0.893		
	Sum of square	Df	Mean square	F	Sig.
Regression	62.07	1	68.9	84.073	0.000^{a}
Residual	57.98	60	57.82		
Total	45.366	59			
Variable	Unstandardised coefficient (β)	Std. error	Standardized coefficient (β)	T	Sig.
Constant	16.25	11.8		1.453	0.191
IFRS Adoption	10.597	1.021	0.950	9.169	0.000

The table 1 indicates that IFRS adoption (F= 84.073; R^2 = 0.903; β = 16.597; t = 9.169**; P<.01) significantly influenced financial reporting quality. The relationship was said to be positive which implies that IFRS adoption is an important impetus of financial reporting quality. The result also revealed that IFRS adoption has 90.3% decisive influence on financial reporting quality. This means that IFRS adoption is a vital determinant of financial reporting quality. The result is in line with the study of Ogiedu (2013), Wilson and Ioraver(2013), Essien - Akpan (2011), Nyor (2012) and Demaki (2013) that adoption of international financial report standard can enhance financial reporting quality in Nigeria.

Conclusion and Recommendations

This research study examined the influence of IFRS adoption on financial reporting quality with particular reference to selected deposit money banks in Nigeria. The result revealed that IFRS adoption has significant influence on financial reporting quality. This implies that adoption of IFRS in Nigeria will contribute positively to the development of both public and private sectors. Therefore, paper recommended that Government should empowered the Financial Reporting Council of Nigeria to create an enabling environment for the implementation of IFRS and to guarantee credible financial reporting regime in both private and public sector entities in Nigeria.

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