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IMPACT OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) ADOPTION ON THE QUALITY OF FINANCIAL STATEMENT OF QUOTED BANKS IN NIGERIA

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Abstract

Accounting scholars, practitioners and regulators have been carrying debates over measurement and disclosure issues in order to achieve internationally comparable and high quality financial statements. The global Generally Accepted Accounting Principles (GAAP) that is seeking to unify accounting and financial reporting world is the International Financial Reporting Standards (IFRS). Accounting framework has been shaped by (IFRS) to provide for recognition, measurement, presentation and disclosure requirements relating to transactions and events that are reflected in the financial statements. The problems that prompted the conduct of this study are that the adoption of IFRS will lead to the change in most of our local laws to be in line with the new standards. The objective of this study is to assess the adoption of IFRS on report quality of financial statement in Nigeria Banks. Five (5) quoted banks on the Nigeria stock exchange market (NSE) were considered for period of 2007-2014 and samples were drawn to that effec with the use of random technique. A dummy variable regression technique (ANOVA Model) was used to analysed data. The study concluded that adoption of IFRS has significant influence on the quality report of financial statement. The study recommends that uniformity in accounting standards on a global scale will further enhance greater confidence of users on financial statements this will help them in comparing activities of their company with those situated outside the country. The issue of training is important in the adoption of IFRS. Adequate training is required by the accountants and professional members who are connected with the use of IFRS in effective adoption of the standards, adoption of IFRS will also helps in minimizing fraud and irregularities.

Keywords: Financial Statement, IFRS, NGAAP, Quality Report, Quoted Banks

Introduction

Accounting is the language of business while financial reporting is the medium through which the language is communicated. Accounting and financial reporting are regulated by Generally Accepted Accounting Principles (GAAP) comprising of accounting standards, company law, stock market regulations, and so on. The global GAAP that is seeking to unify accounting and financial reporting world is the International Financial Reporting Standards (IFRS). Accounting Framework has been shaped by International Financial Reporting Standards (IFRS) to provide for recognition, measurement, presentation and disclosure requirements relating to transactions and events that are reflected in the financial statements.

Accounting scholars, practitioners and regulators have been involving in debates over measurement and disclosure issues in order to achieve internationally comparable and high quality financial statements. First January 2005 marks the day for the start of global accounting convergence. Effective from this date, European Union (EU) required the companies whose shares are traded in the EU Stock Exchanges to prepare their consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. Some other countries also either required the use of IFRS as is or adopted the standards by building into their national accounting standards around the same date. It is known that information disclosed in the financial statements of a company is a function of its environment, where culture is an important factor (source). Companies in Nigeria have always performed their functions based on the pronouncements of the standards issued by the NASB as it relates to accounts preparation and presentation; but since the advent of IFRS, they have taken it upon themselves to adopt parts of the new standards in reporting the financial statements of entities that have adopted them. One of the problems that prompted the conduct of this study is that the adoption of IFRS will lead to the change in most of our local laws to be in line with the new standards. This will lead to enacting new laws and amending the existing ones so as to accommodate the provisions of IFRS. Also, the local standards like Bank and other Financial Institution Act (BOFIA) does not cover all aspects of corporate financial reporting due to the reason that they were formulated based on the pronouncements of the old IAS some of which has since been amended or withdrawn by IASB.

Research Questions

In the course of carrying out the study, the following research questions will be answered. These include:

i. Is there a significant difference in the Equity of Banks between NGAAP and IFRS period?
ii. Is there a dichotomy in the Operating performance of Banks in the pre and post IFRS Period?
iii. Is there a significant change in the Assets value of Banks in the post IFRS period?

Objectives of the Study

The main objective of this study is to assess the adoption of IFRS on report quality of financial statement in Nigerian Banks.

Other specific objectives of the study include:

i. to examine the effect of IFRS on the Equity of Banks in Nigeria;
ii. to evaluate the difference in the Operating Profit of Nigerian banks using NGAAP and IFRS and;
iii. to evaluate significant influence of IFRS on the valuation of Assets of Nigerian banks.

Conceptual Definitions

Corporate Financial Reporting

Accounting information is communicated by means of reporting and a wide variety of report may be used. (Woolf, 1997) as cited in (Sanni, 2006), stated that a corporate report of an organization is a comprehensive package of information of all kinds which completely describes an organization's economic activities. (Wikipedia 2011) expresses a financial statement (or financial report) as a formal record of the financial activities of a business, person or other entity. In many countries of the world a financial statement is often referred to as accounts, although the term financial statement is also used, particularly by accountant (Wikipedia, 2011).

Characteristics of Financial Statement

The principal purpose of financial statements is to serve as a guide for both external and internal data-users in measuring critical variables that affect the firms' viability and profitability (Ramos, 2011). However, there are some common characteristics of a genuinely well-prepared financial statement which would ensure their usefulness to both the company and an outside observer. These characteristics include:

i. Rules of Accounting: Reporting of financial information is meant to follow the Generally Accepted Accounting Principles (GAAP) of a particular jurisdiction. These standards or principles are essentially intended to provide a set of common concepts for accountants and other financial industry professionals to evaluate a company's business practices. Although these principles do not carry the force of law but Securities and Exchange Commission and other regulatory bodies of various countries expects publicly-traded companies to stick to these principles (Ralph, 2011).

ii. Understandability: Understandability means that financial statements should be readily comprehensible. The main qualitative characteristic of understandability ensures that financial statements are reported in a simple manner, i.e. a manner in which the general public and consumers can understand (Ramos, 2008).

iii. Reliability: Another crucial element is reliability; the statements should be free from error. When reading one of these statements, finance professionals should be able to come up with similar figures, even if they are using different methods (Ralph, 2011).

iv. Comparability: Comparability suggests that financial statements should b e comparable within the entity and across entities (Ramos, 2008). Measuring and reporting methods should be similar, so as to ensure a consistent evaluation method of companies working in a particular industry.

v. Relevance: Relevance means that financial statements should be material to the business firm. Relevance is the ability of an item to influence a decision. The financial information contained in financial statements should have an impact over the business firm's operation and decision making policies (Sanni, 2006).

Users of Financial Statement

Financial statements may be used by users for different purposes:

i. Owners and managers require financial statements to make important business decisions that affect its continued operations.
ii. Employees also need these reports in making Collective Bargaining Agreements (CBA) with the management. in the case of labour unions or for individuals in discussing their compensation, promotion and rankings.
iii. Prospective investors make use of financial statements to assess the viability of investing in a business.
iv. Prospective investors make use of financial statements to assess the viability of investing in a business.
v. Financial institutions (banks and other lending institutions) use them to decide whether to grant a company with fresh working capital or extend debt securities (such as a long-term bank loan or debentures) to finance expansion and other significant expenditures.
vi. Government entities (tax authorities) need financial statements to ascertain the propriety and accuracy of taxes and other duties declared and paid by a company.
vii. Vendors who extend credit to a business require financial statements to assess the creditworthiness of the business.
viii. Media and the general public are also interested in financial statements for a variety of reasons. (Wikipedia, 2011)

International Financial Reporting Standards (IFRSs)

The term International Financial Reporting Standards (IFRSs) has both a narrow and a broad meaning. Narrowly, IFRSs refers to the new numbered series of pronouncements that the IASB is issuing, as distinct from the International Accounting Standards (IASs) series issued by its predecessor. More broadly, IFRSs refers to the entire body of IASB pronouncements, including standards and interpretations approved by the IASB and IASs and SIC interpretations approved by the predecessor International Accounting Standards Committee (Deloitte, 2011).

The genesis of IFRSs is the formation of the IASs back in 1973 as a result of an agreement by professional accountancy bodies of major markets (United Kingdom and Ireland, United States, Australia, Canada, France, Germany, Japan, the Netherlands and Mexico) to develop a set of accounting principles across the globe. In early days, IASs were aimed at promoting best practice in the preparation of financial statements while permitting different treatments for a given transaction and event. Obviously, the application of IASs in preparing financial statements did not always result into uniform and comparable financial information simply because similar transactions and events were not necessarily reported in a like way (Deloitte, 2011).

With the dawn of globalization and increasing demand for transparent comparable financial information in the markets, the IASC was restructure in 2001 by creating the IASB, among other changes. The IASB is responsible for developing, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require transparent and comparable information in general purpose financial statements and other financial reporting to help participate in the various capital markets of the world and other users of information to make economic decisions (Deloitte, 2011).

Nigeria and IFRS Adoption

In order to allow for effective implementation of IFRS adoption in Nigeria, the former regulatory body in charge of monitoring the reporting system was in 2011 restructured from Nigerian Accounting Standards Board (NASB) to Financial Reporting Council of Nigeria (FRC). Financial Reporting Council of Nigeria is now the body corporate solely responsible for the issuance, monitoring and review of Accounting and Auditing Standards in Nigeria. The council is empowered under section 52(1) of the Act to adopt and keep up-to-date accounting and auditing standards, and ensure consistency between Standards issued under International Financial Reporting Standards as provided under Part VII of FRC Act 2011 which dealt with review and monitoring of standards. Henceforth, the council (FRC) will only be reviewing, monitoring and issuing Standards to ensure consistency with the requirements of IFRS-Framework. Thus, all the standards to be issued or reviewed by the council should be in consistent to IASB guidelines for global reporting, given due consideration to our peculiar customs, business environment, laws and level of economic development.

Why Nigerian Banks Adopts IFRS

Baskerville (2011) identified that, banks across the globe have long had major issues with asset and liability recognition. The issue of IAS 32 dictating disclosure rules and IAS 39 dictating measurement rules for financial assets and liabilities was thus mired in controversy; so IFRS (specifically IFRS 9) has now solved the case and meet the user needs.

Akpan-Essien (2011), also stated that, the adoption of the IFRS in the Nigerian Banking sector will ensure transparency, accountability and integrity in financial reporting 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 Ghana who have begun oil production in commercial quantity and who are perceived to have better financial reporting standards in place.

Due to quest for uniformity, reliability and comparability of companies' financial statements, Nigerian banks have adopted and produced IFRS based result for the year 2012. So many issues were raised there and, all hands are on deck for the full implementation and effective application of the framework as a whole in the future reporting system of the sector. This is because adopting a unified accounting system and reporting framework like IFRS will surely facilitate the movement of capital and other resources across borders and will eventually decrease the expense involved in the preparation of accounting statements (Tyrrall and Rakhimbekova 2007).

Challenges of IFRSs Adoption

Despite the prospects or benefits that are attached to the adoption of IFRS on one hand, there are other challenges it poses to the adopters on the other hand. Most of these challenges are commonly found in the developing countries that have or trying to adopt IFRS. The initial conversion cost; information technology (IT) is very costly and it is hard to regulate in all countries. For implementing IFRS, companies need to give training to staff, implement IT support, so at the initial stage they have to incur lots of expense (Saket, 2010). IFRS, may give more information than private entities provide currently under local GAAP (e.g. Comparatives).A question of whether the standard will be accepted by users, especially local users and their understanding of the standard may also be in doubt (Oyedele, 2011).

Companies will have to build awareness amongst investors and analysts to explain the reasons for this volatility in order to improve understanding, and increase transparency and reliability of their financial statements. A major problem is incorporating the laws of the adopting countries to suit the provisions of IFRS.

Theoretical Discussion

Theory of Isomorphism

For the purpose of this research work, one of the relevant theories available is the one used by Gyasi (2010) to explain the adoption of IFRS; this is called the theory of Isomorphism. The theory of isomorphism defines the "constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions". Organizational characteristics are modified in the direction of increasing compatibility with environmental characteristics; the number of organizations in a population is a function of environmental carrying capacity; and the diversity of organizational forms is isomorphic to the environment diversity. This theory in practice implies that, the features of an organization can be tuned to some extent for the sake of compatibility and uniformity to suit the surrounding environment of the organization in question. Also in most instances, even the numerical value of organizations in an environment, according to the theory is as a result of the capacity or the ability of the environment to contain such organizations. The identity, complexity or even the simplicity of the structure of an organization is a function of the diversity of the environment in which it operates. The theory of isomorphism can be divided into coercive, mimetic and normative isomorphism (DiMaggio and Powell, 1983 as cited by Gyasi, 2010).

The coercive isomorphism takes the shape of a formal or an informal pressure exerted on an organization by other superior organizations upon which they depend as well as the cultural environment within which an organization operates. Mimetic isomorphism as the name implies has to do with mimicking what others who have succeed have done so to be like them; while normative isomorphism is associated with professionalism i.e. professional bodies other than superior organization makes the performance of an activity or duty binding on its members. So all this division of isomorphism can be related to IFRS adoption by companies in Nigeria and other part of the world because it required by the regulatory body, for globalization purposes and the professional bodies in the field of accounting

Empirical Discussion

Many studies have been conducted on the adoption of IFRSs and its effects on the performance of organizations or on the markets or stock exchanges in a given country and how the adoption has effects on the country as a whole. For the purpose of this study, a number of studies conducted will be reviewed as to bring out the opinion of different scholars.

Gebhardt and Novotny-Farkas (2010) conducted a study on The Effect of IFRS Adoption on the Financial Reporting Quality of European Banks. This study is aimed at examining the implication of mandatory IFRS adoption on the accounting quality of banks in 12 EU countries. Results show that the restriction to incurred losses under IFRS significantly reduces the ability of banks to engage in income smoothing and the effect of IFRS is less pronounced in countries with widely dispersed ownership structures and strict banks' compliance.

Palea (2010) looked at the Effects of the IAS/IFRS adoption on European Union and financial industry. This study aims at examining the effects of the IAS/IFRS adoption in Europe on the cost of equity capital relative to the bank industry. His findings provide evidence that the Regulator's purpose of fostering a cost-efficient functioning of the capital market for firms could be considered as accomplished. Furthermore, they point out that firms which implemented the IAS/IFRS have gained a comparative advantage on the equity market over firms that are still adopting accounting standards based on the IV and VII European Directives.

Cascino and Gassen (2010) in their study "Mandatory IFRS Adoption and Accounting Comparability" carried out in Germany with the aim of investigating the effects of mandatory IFRS adoption on the comparability of financial accounting information around the world. They found that predictable country, region and firm level incentive continue to shape the outcome of the financial reporting process and thus limit the cross sectional comparability of financial accounting information. Overall, they suggested that mandatory IFRS adoption has a limited impact on accounting comparability and that accounting information continues to be shaped by both reporting standards and incentives.

From the above, it can be concluded that most countries in Europe have adopted the IFRS since 2005 while other developing countries of the world are trying to catch up with the train of the new invention so as not to be left out especially in the goods of adopting IFRS.

Another study conducted by Gyasi (2010) on the "Adoption of International Financial Reporting Standards (IFRS) in Developing Countries – The Case of Ghana", which was aimed at analysing how developing countries with special reference to Ghana adopted IFRS. The conclusion drawn from the study is that many authors have written and studied the adoption of IAS/IFRS in most of the developed countries. However, a few have written or studied the adoption and compliance of developing countries with these standards. The advent of companies going international or even global has given rise to the need to develop accounting standards that ensure uniformity and standardization of reporting financial information among parent companies and subsidiaries.

Methodology

Statement of Hypotheses

The study is guided by the following hypotheses:

H_{01}: There is no significant different in the equity of banks in NGAAP and IFRS period.

H_{02}: There is no significant change in the operating profit of Nigeria banks in the pre and post IFRS period.

H_{03}: IFRS do not have significant influence on the valuation of asset of Nigeria banks

Model Specification/techniques

The model seeks to specify the assessment of adoption of international financial reporting standard on report quality of financial statement Nigeria banking sector. A dummy variable regression technique (ANOVA Model) was used to analysed. The models are specified as follows.

Model 1:

EQT = f(DMNGAAP, DMIFRS)

EQTit = α + βDMIFRSit + μi……………………………………………(3.1)

Model 2:

PAT = f(DMNGAAP, DMIFRS)

OPPit = α + βDMIFRSit + μit……………………………………………(3.2)

Model 3:

ASV = f(DMNGAAP, DMIFRS)

ASVit = α + βDMIFRSit + μit……………………………………………(3.3)

Where:

DMIFRS = dummy variable and it is taken to be 1when EQT, PAT and ASV is observed for IFRS and 0 otherwise. It should be noted that dummy variable for NGAAP is omitted and is now represented by (α) to avoid dummy variable trap in the estimation of the model.

EQT = Equity of the banks

PAT = Profit after tax of the banks

ASV = Assets valuation of the banks

α = This represents the average value for the omitted variable NGAAP

β = This represents the amount by which the value under IFRS is different from NGAAP

μ = Stochastic error term

Research Design and Method of Data Collection

In this study, the researcher adopts the panel design because the study is carried out on a group of banks (cross sectional units) and for eight (8) years (time series).For the purpose of this study, the target population is the quoted banks in Nigeria stock exchange (NSE) where study draws data upon a sample of 5 banks quoted on the NSE from 2007 to 2014. The study utilized data from the secondary source because the estimation of the model in the study requires the use of pooled cross-section/time series data in the form of financial information, the sources of data for the study are therefore the annual reports of five (5) selected banks for 2007 to 2014 study period. The scope of the study is restricted to cover five (5) quoted banks (UBA, First, Access, Fidelity and Zenith bank) on the Nigeria stock exchange market (NSE) for the period of 2007-2014 and samples were drawn to that effect using random technique because of fact that companies are mandated to prepare the financial statement of two years prior to the year of adoption of IFRS. The result generated can be used to generalize.

Estimation Techniques

The models specified in Section 3.1 were estimated using fixed (random) effect method of panel data regression technique as suggested by Hausman test.

Data Presentations, Result And Discussions

This section covered the presentation of data, analysis of data and discussion of findings.

Summary of Regression Analysis Results

Dependent Variable: EQUITY
Method: Panel Least Squares
Date: 05/21/15 Time: 22:02
Sample: 2007 2014
Periods included: 8
Cross-sections included: 5
Total panel (balanced) observations: 40

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	222438.7	15167.00	14.66597	0.0000
DM	36110.95	21449.37	1.683543	0.1014

Source: Author computation, 2015

To achieve the first objective of the study, table 1 above shows the impact of IFRS on the quality of financial statement (equity as proxy) in Nigeria Banks using a simple dummy regression analysis. The coefficient of the intercept in result above (N222,438.70 million) is the average Equity of selected banks in the NGAAP period representing omitted variable from the model, while the coefficient of dummy variable (N36,110.95million) is the amount by which the average Equity of IFRS period is more than the average equity of NGAAP period but variable is not significant at 5% indicated by (0.1014). Overall, findings from the result show that there is different in the average equity of the IFRS period from the NGAAP period but the difference is not significant at 5%

indicated by (0.250).

Summary of Regression Analysis Results

Table 1: Summary of ANOVA Result

EQUITY

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	13040007099.025	1	13040007099.025	1.310	0.250
Within Groups	378265108038.750	38	9954344948.388		
Total	391305115137.775	39			

Dependent Variable: PAT
Method: Panel Least Squares
Date: 05/22/15 Time: 18:19
Sample: 2007 2014
Periods included: 8
Cross-sections included: 5
Total panel (balanced) observations: 40

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	18748.95	4301.777	4.358420	0.0001
DM	19909.00	6083.632	3.272552	0.0025

Table 2: Summary of ANOVA Result

PROFIT AFTER TAX

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	3963682810.000	1	3963682810.000	6.473	.015
Within Groups	23267805051.900	38	612310659.261		
Total	27231487861.900	39			

Source: Author computation, 2015

To achieve the first objective of the study, table 2 above shows the impact of IFRS on the quality of financial statement (profit after tax as a proxy) in Nigeria Banks using a simple dummy regression analysis. The coefficient of the intercept in result above (N18748.95million) is the average profit after tax (PAT) of selected banks in the NGAAP period representing omitted variable from the model, while the coefficient of dummy variable (N19909.00million) is the amount by which the average profit after tax (PAT) of IFRS period is more than the average profit after tax (PAT) of NGAAP period and the variable is significant at 5% which indicate by prob(0.0025). Overall, findings from the result show that there is different in the average profit after tax (PAT) of the IFRS period from the NGAAP period and the difference is significant at 5% indicated by prob(0.015).

Summary of Regression Analysis Results

Dependent Variable: ASV
Method: Panel Least Squares
Date: 05/22/15 Time: 18:31
Sample: 2007 2014
Periods included: 8
Cross-sections included: 5
Total panel (balanced) observations: 40

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1103611.	82865.30	13.31814	0.0000
DM	822606.8	117189.2	7.019474	0.0000

Table 3: Summary of ANOVA Result
ASSET VALUE

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	6766819474062.400	1	6766819474062.400	17.482	.000
Within Groups	14708394130781.996	38	387063003441.632		
Total	21475213604844.390	39			

Source: Authors computations, 2015

To achieve the first objective of the study, table 3 above shows the impact of IFRS on the quality of financial statement (asset valuation as a proxy) in Nigeria Banks using a simple dummy regression analysis. The coefficient of the intercept in result above (N1103611.0million) is the average asset valuation (ASV) of selected banks in the NGAAP period representing omitted variable from the model, while the coefficient of dummy variable included in the model (N822606.8million) is the amount by which the average asset valuation (ASV) of IFRS period is more than the average asset valuation (ASV) of NGAAP period and the variable is significant at 5% which indicate by prob(0.0000). Overall, findings from the result show that there is different in the average asset valuation (ASV) of the IFRS period from the NGAAP period and the difference is significant at 5% indicated by prob (0.0000).
See appendix for the preliminary analysis

Conclusions and Recommendations

Based on the findings of this study, the study concluded that adoption of IFRS has significant influence on the quality report of financial statement. This study is contributed to knowledge because researches on related topic use other various method of analysis to evaluate the impact of IFRS adoption. This study therefore, tried to contribute to knowledge through the use of panel data analysis which consist of five selected banks for the period of eight years in Nigeria and also make use of four variables which are: Equity, profit after tax, asset value and dummy variable.

The study recommends that:

I. Uniformity in accounting standards on a global scale (IFRS) will further enhance greater confidence of users on financial statements. This will help them in comparing activities of their company with those situated outside the country.

ii. The issue of training is important in the adoption of IFRS. Adequate training is required by the accountants in effective adoption of the standards. Adoption of IFRS will also helps in minimizing fraud and irregularities. Relevant professional bodies e.g. ICAN, ANAN, CIBN etc. who are connected with the use and adoption of IFRS should organize adequate training for the professional members so that they can be familiar with the provisions of IFRS. Also, reporting entities should be encouraged to send their staff especially those in charge of the preparation of accounts for training on IFRS.

iii. Professional bodies like ICAN, ANAN, CIBN should organize regular seminars on the importance of IFRS

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