European Journal of Accounting, Auditing and Finance Research

Vol.1, No.4, pp. 1- 11, December 2013

Published by European Centre for Research Training and Development UK (www.ea-journals.org)

IFRS-BASED RESULTS AND THE READINESS OF NIGERIAN AUDIT COMMITTEE: THE PROFESSIONAL ACCOUNTING ACADEMIC STANDPOINT

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ABSTRACT: *This study investigated the level of readiness of the audit committee towards understanding and interpreting IFRS based result in Nigeria. This study adopted the survey research method to garner opinion of stakeholders especially the professional accounting academic. One hundred and twenty copies of questionnaires were administered making forty copies of questionnaire to each of the three university studied. The questionnaires were analyzed with the use of One-Sample t-test. The study found that the presently constituted audit committee in Nigeria is statistically significantly weak in understanding and interpreting IFRS based results. It is therefore recommended as a matter of urgency that the audit committee members be subjected to training that will specifically tailored towards the application of IFRS in their various sectors and industry they represent. This training should not however, be one off. It should be continuous and in timely manner as changes in IFRS is still ongoing.*

KEYWORDS: IFRS, Audit Committee, Financial Report, Academic, Professional and Nigeria.

INTRODUCTION

The Financial Accounting Standard Board (FASB) has been collaborating with the International Accounting Standards Board (IASB) on a joint convergence project in an effort to increase the international comparability and general acceptability of financial accounting and reporting. This led to the issuing of Norwalk Agreement in 2002. Under the Norwalk Agreement, the FASB and IASB acknowledged their commitment to developing high-quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting (AICPA, 2010). The movement toward International Financial Reporting Standards (IFRS) has gained momentum due to its increased global acceptance with more than 100 countries currently requiring or allowing the use of IFRS. Additionally, the continued globalization of the capital markets (which increases the importance of comparable financial reporting around the globe) has motivated regulators and standard setters to achieve a single set of high quality globally accepted accounting standards (BDO, 2010).

As a result of the global acceptance of IFRS, some developing nations who considered the global impact it would have on their economies either through foreign aids, foreign direct investment or the development of the capital market in term of capital inflow decided to go for IFRS. Many of the developing nations took that cue from the world major economics whether to adapt, adopt or converge the IFRS. Different countries however use different approaches in adopting IFRS based on their need and ability to adopt (Azobi, 2010). Though, the impact of IFRS on the economic growth in the developing nations is still subject to empirical questions.

In Nigeria, there are different positions the various stakeholders and concerned professionals are taken towards migrating to IFRS. The first school of thought maintained that, the not too good financial reporting in the country is not about the adoption of accounting standard but is all about full implementation of such standards. Their position is that, the Statements of Accounting Standards (SAS) in Nigeria has not being fully complied with in preparing the financial report and if migrated to IFRS, there is a high probability that the same challenge will still surfaced. However, the second school of thought believed that, Nigeria cannot isolate itself from the world. So, this is the time to take a serious look at IFRS in order to take the full advantage of what it has to offer which is primarily that the financial reporting meet international standards for other attendant benefits.

In line with the position of the latter, the federal government of Nigeria has come up to say that the new accounting system, the international financial reporting standard (IFRS) will take off in Nigeria on 1st January, 2012 (Umoru and Ismail, 2010). The government of Nigeria involved all stakeholders and institutions before it finally decided to adopt the IFRS on a gradual basis (Ezeani & Oladele, 2012).

Among various stakeholders engaged is the audit committee which plays a critical role in the effective functioning of the capital markets. Their oversight and experience also assists company management teams to navigate rough waters, capitalize on opportunities, operate efficiently, and, of course, provide timely, reliable financial information to investors (CAMA, 2004; Quigley, 2009). Now that IFRS has come to stay with effect from 2012, does the present constituted audit committees in Nigeria have the capacity and the knowledge to interpret IFRS based financial statement considering the recent financial meltdown and the illiquidity experienced in the banking sectors and the capital market as a result of fraud, manipulations of figures and fragrant abuse of corporate governance? If the present audit committees find it difficult to detect fraud in the financial reporting prepared using SAS, how would they cope with IFRS based financial statement that involves judgment and especially those areas that involves estimation? According to Hughes (nd) the transition to IFRS brings a particular challenge for audit committee members. Therefore any experience if at all obtained in Nigeria SAS environment by the audit committee members is not just enough and sufficient anymore.

In Nigeria, the Federal government through the Central Bank of Nigeria (CBN) had asked the quoted companies to release their 2012 financials prepared with International Financial Reporting Standards (IFRS). That means the audit committee members must be able to evaluate the impact of IFRS adoption on key performance indicators and drive management to manage expectations where significant changes occur as they prepare to comply.

With this notion therefore, having a profound knowledge of the business is a key element of understanding and interpreting IFRS financial statements, meaning that audit committee members must understand the story behind the financial performance their companies are reporting.

Awotoye (2013) argue that audit committee members should evaluate the extent to which incentives may encourage fraudulent financial reporting as IFRS involves judgment. Audit committee should understand areas involving estimates and their effects on reported results. Audit committee members must ask probing questions and have frank discussions with management and auditors. The audit committee has three distinct providers of assurance over the financial statements - namely management, internal and external audit. The audit committee has to have the necessary ability and financial literacy to use effectively these three forms of assurance in making an assessment of whether there has been fraudulent financial reporting and whether to recommend the financial statements to the board for approval. In addition, audit committee members should be able to do a detailed review of new statements in the financial statements; evaluate processes used to obtain information and ensure that sufficient disclosures are made; know what auditors reported in their management letter and summary of unrecorded audit misstatements (Awotoye, 2013). However, the ability of the audit committee to effectively discharge this enormous and highly technical assignments and roles is a function of their understanding of IFRS as a whole. That the present constituted audit committee in Nigeria will be able to understand IFRS based financial reporting is therefore call for attention.

Studies have been carried out in the context of Nigeria on the role of audit committee to the adoption of IFRS (see Delloitte, 2009, 2011). Thus, the question still remains: how ready are the audit committees in term of capacity and knowledge that will enable it contribute significantly towards the quality of financial reporting in Nigeria? The objective of this paper therefore is to examine if the audit committee in Nigeria as presently constituted is able to understand, interpret and ask probing questions from the management or external auditors on IFRS based financial reporting and to find out necessary steps needed to ensure their enhancement towards IFRS. To the best of our knowledge, no study has empirically examined the readiness of the Nigerian audit committee towards the mandatory adoption of IFRS as we consider in this study.

Therefore, the following hypothesis was postulated to empirically answer the objective stated above. The hypothesis is stated in the null.

Hypothesis Statement

H_0: The present audit committee in Nigeria is not significantly/technically weak in understanding and interpreting IFRS based result.

LITERATURE REVIEW

Audit Committee and International Financial Reporting Standard

The need for integration of audit committee into global corporate finance is rooted deeply in American corporate evolution especially the New York Stock Exchange crash in 1929. The economic depression in the early thirties had an asymmetrical negative depreciation of shares. Consequently, several public companies agreed to tighten their internal and external audit and financial reporting standards and need for sound corporate governance to govern the management, resulting in the creation of audit committee. Audit committee membership is a mix of Board of Directors and Shareholders with a chairperson selected from among the members. Given the global trend toward International Financial Reporting Standards (IFRS), many boards are considering the implications for their organizations. Directors should examine not only the strategic effects of this shift, but also what it means in terms of having well-qualified financial experts with knowledge of IFRS on boards and audit committees.

The reason is that audit committees have a fiduciary responsibility to protect the interests of shareholders and oversee the integrity of the financial reporting process and they are part of internal audit system created by public and private companies to ensure financial regulatory and risk management compliance of public and private companies to lay down financial laws and practices (Brooke, 2012). Their involvement in the transition to IFRS is essential because of the various roles they perform in the financial sector in term of ascertaining whether the accounting and reporting policies of the company are in accordance with legal requirements and agreed ethical practices, reviewing the scope and planning of audit requirements and the findings on management matters in conjunction with external auditors and departmental responses thereon. Keep under review the effectiveness of the company's systems of accounting and internal control, make recommendations to the board in regard to the appointment, removal and remuneration of external auditors of the company and authorize the internal auditors to carry out investigations into any activities of which may be of interest or concern to the committee.

Despite the duties listed above of the audit committee, the question is that, how can the audit committee get acquainted with the issue of IFRS? There would be need for relevant training of audit committee on IFRS. Awotoye (2013) opined that audit committee should receive relevant training on IFRS to ensure sufficient level of knowledge for discharging duties and keep knowledge current.

If the audit committee does not have a sufficient understanding of IFRS to exercise the appropriate level of oversight, it could result in the adoption of inappropriate policy elections. The committee should develop a plan that outlines timely education for all members and should consider the implication that IFRS could have on the listing standard's financial literacy requirements. Building proficiency will allow audit committee members to lead a productive dialogue and provide useful insights in IFRS planning discussions. Education and training of audit committee will give them insight to know what is required of them and put them in a better position to insist on getting high-quality information sufficiently in advance so that there can be thorough consideration of the issues prior to, and informed debate and challenge at, board and committee meetings (Brooke, 2012).

The audit committee members therefore, require the knowledge of IFRS in performing their duties, with the understanding that this information needs constant refinement. Hence, KPMG (2012) maintained that despite being vigorously independent, diligent and knowledgeable, audit committee members will never be fully effective unless they have both access to, and an understanding of, all the relevant information on IFRS. It is therefore important for audit committees to gain an understanding of IFRS. They should also be prepared to ask members of the company's management team specific questions to determine management's preparations for the adoption of IFRS (AICPA, 2010). In addition, the audit committee should be able to understanding the financial history of the company and involving in the planning and implementation of IFRS which will enhance the ability and capacity of audit committee in carrying out their functions.

RESEARCH METHODS

This study is a survey research and was carried out only in private universities in Nigeria excluding government own universities. A survey design was adopted to sample the opinion of professional accountants in the academic. This group is chosen because they have been following the trends in IFRS adoption and had held and attended seminars, conferences and workshops on the subject matter either as participants or to deliver lecture. As a matter of fact, the subject of IFRS is being taught in many Nigerian universities. This study made use of purposive/judgmental sampling techniques in selecting private universities in Nigeria. Therefore the population of the study is 50 private universities (NUC, 2012).

The sample size is 3 private universities. According to Krejcie and Morgan (1970) in Uwuigbe (2010) agrees with this sample where they proposed the population proportion of 0.05 as adequate to provide the maximum sample size required for generalization. The universities are Covenant University, Crawford University and The Bells University. We considered these universities again as a result of their proximity for the administration of the questionnaires constructed by the researchers. A total number of 120 copies of questionnaires were administered making 40 copies of questionnaire to each of the 3 university. An expert's opinion was sought to establish the validity of the contents and the reliability of the structured questionnaire during the pilot study. A Likert scale ranging from 4 to 1 was adopted. For testing the hypothesis, the one

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sample t-test was employed to establish audit committee readiness for IFRS based results with the use of SPSS statistical package.

EMPIRICAL RESULTS AND IMPLICATION OF FINDING

Descriptive Statistics

A brief descriptive overview of the items analyzed as representing each of the factors that measure the present audit committee readiness for IFRS based reports. All items were measure using a four likert scale coded 4-1.

Table 4.1 Academic Qualification

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	HND	3	6.1	7.3	7.3
	Bsc/BA	10	20.4	24.4	31.7
	MBA/MA	21	42.9	51.2	82.9
	Phd	1	2.0	2.4	85.4
	Others	6	12.2	14.6	100.0
	Total	41	83.7	100.0	
Missing	System	8	16.3		
Total		49	100.0		

Source: Field Survey (2013)

In terms of qualification, it is encouraging that 6% have an Higher National Diploma and 20% possess minimum of Bachelors of Science or Bachelors of Art which is the first degree and even more encouraging that about 43% of the respondents had a second degree and about 2% of the respondent their doctorate degree. This gives a confidence that, those who responded to the questionnaire were well educated and professionally competent as the questionnaire were administered to senior academic with professional background in the universities.

Table 4.2: Professional Affiliation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	7	14.3	25.9	25.9
	ICAN/ANAN	18	36.7	66.7	92.6
	ACCA	1	2.0	3.7	96.3
	OTHERS	1	2.0	3.7	100.0
	Total	27	55.1	100.0	
Missing	System	22	44.9		
Total		49	100.0		

Source: Field Survey (2013)

It is also noted that about 37% of the respondents are affiliated to ICAN/ANAN and about 12% are affiliated to ACCA. In all a very high percentage of the respondents is affiliate to one of the reputable professional bodies as expected. Therefore, the level of education of the respondents indicates that there is high degree of knowledge and experience required to properly appreciate the impact of state agencies and industry regulations on the quality of accounting practice in Nigeria and thus in a position to adequately respond to the questionnaire. Though most of the respondents are affiliated to a professional body, about 81% of them are still associate members.

Table 4.3: Audit Committee Readiness for IFRS

Variable	**Min**	**Max**	**Mean**	**Std Dev.**
Scrutinize IFRS based reports	1	4	2.32	.935
Clearly understood IFRS based reports	1	4	2.57	1.016
Knowledge of risks associated with IFRS in firm	1	4	2.63	.974
Ability to provide oversight role by the convergence to IFRS	1	4	2.40	.901
Ability to tell full stories behind IFRS based reports	1	4	2.19	.970
Ability to detect missing disclosure in the IFRS based report	1	4	2.34	1.027
Ability to ask probing questions on IFRS based reports	1	4	2.53	.975
Ability to understand all significant estimates in the IFRS based report	1	4	2.49	.975
Ability to evaluate extent to which incentives encourage fraudulent financial report	1	4	2.32	1.002
Composite Index of Responses	**1**	**4**	**2.42**	

Source: Field Survey (2013)

The table in 4.3 shows the descriptive analysis of audit committee readiness in understanding and interpreting IFRS based results in Nigeria. In all, the results explained from the standpoint of the respondents that the consideration of audit committee readiness towards IFRS based result is generally weak considering the mean responses of 2.42 to the composite index of 2.42. From the respondents perspective, the ability of the audit committee members as presently constituted to clearly understood IFRS based results, knowledge of risks associated with IFRS in firm, ability to ask probing questions (which is one of the core functions of audit committee members), and to understand significant estimates in the IFRS based result were considered the major impediments for the audit committee in Nigeria.

Table 4.4:Correlation (Multicollinearity Test)

	Q4	Q5	Q6	Q7	Q8	Q9	Q10	Q11	Q12	Q13
Q4	1									
Q5	.466**	1								
Q6	-.267	-.324*	1							
Q7	.615**	.647*	-.075	1						
Q8	.644**	.430**	-.086	.654*	1					
Q9	.722**	.614**	-.318*	.750**	.780**	1				
Q10	.654**	.350*	-.201	.544**	.741**	.740**	1			
Q11	.525**	.431**	-.087	.681**	.567**	.695**	.770**	1		
Q12	.516**	.368*	-.073	.401**	.587**	.611*	.807**	.681**	1	
Q13	.608**	.606**	-.282	.618**	.649**	.763**	.737**	.688**	.726**	1
**. Correlation is significant at the 0.01 level (2-tailed)										
*. Correlation is significant at the 0.05 level (2-tailed)										

Source: Field Survey (2013)

The table in 4.4 shows the multicollinearity test. The correlation between two variables should not be too high in order to enable proper analysis on such variable. As postulated by Chathoth (2002), the social science researchers' rule of thumb for bi-variate correlation with greater than 0.80 as an indicator for the multicollinearity between variables for screening and preliminary purposes. The results indicate that quite a number of the variables are significant 1%, 5% and 10% based on the Pearson's statistic. The correlation amongst the variables is not as high as 0.8. This indicates that there is no presence of multi-collinearity amongst the variables.

Advanced Analysis (Hypothesis Testing)

The hypothesis tested in this study states that the present constituted audit committee in Nigeria is not significantly/technically weak in understanding and interpreting IFRS based result. In testing this particular hypothesis a one sample student t-test statistics was employed.

Table 4.5: One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
AUDIT COMMITTEE UNDERSTANDING OF IFRS BASED-RESULTS	47	2.57	1.016	.148

Table 4.6: One-Sample Test

	Test Value = 0					
					95% Confidence Interval of the Difference	
	t	Df	Sig. (2-tailed)	Mean Difference	Lower	Upper
AUDIT COMMITTEE UNDERSTANDING OF IFRS BASED-RESULTS	17.371	46	.000	2.574	2.28	2.87

Source: Field Survey (2013).

Findings from our analysis as revealed in table 4.5 showed that the p-value 0.000 and t-value of 17.37 is less than critical p-value of 0.05 level of significance i.e. (p-value of 0.000<0.05). The decision rule is that reject H_0 if P value is < .05 and accept H_0 if P value is > .05. Therefore, the result supports the alternative hypothesis and rejects the null hypothesis. We can therefore state statistically that the present audit committee in Nigeria is significantly weak in understanding and interpreting IFRS based result.

IMPLICATION OF FINDINGS

The finding in table 4.6 clearly indicates that the presently constituted audit committee in Nigeria is statistically significantly/technically weak in understanding and interpreting IFRS based result which Nigerian government has mandated with effect from 2012. The findings could also indicate the state and the position of the audit committee members under GAAP which means audit committee members have not fully grasped GAAP based financial reporting before the adoption of IFRS or all the while, the right and knowledgeable people could not find their ways into the audit committee.

CONCLUSION

This paper therefore conclude that, the audit committee in Nigeria as presently constituted is short of the capacities and technicalities to effectively study IFRS based result for constructive criticisms and analyzing of issues bothering on financial improprieties or detection of fraud.

Therefore, the hope of the shareholders and other stakeholders who entrust the audit committee with the responsibility to provide oversight functions over the financial report to ensure quality and transparency has not been taken care of because having a profound knowledge of the business is a key element of understanding and interpreting IFRS financial statements.

RECOMMENDATIONS

Based on the result of the analysis and the implication of findings, this paper therefore recommends that:

1. The audit committee members must be subjected to training that will specifically tailored towards the application of IFRS in their various sectors and industry they represent. This training should not however, be one off. It should be continuous and in timely manner as IFRS is being reviewed now and then.
2. The appointment of audit committee members should be made more transparent to ensure that members with financial and most importantly accounting knowledge are represented in the audit committee as contained in section 30.2 of Nigerian Securities and Exchange Commission Code of 2011,
3. The service of professionals who clearly understood IFRS based result can be sought to remedy the situation for now pending when the members of the audit committee will be fully trained.
4. The audit committee members should endeavor to meet regularly as specified in the Nigerian Securities and Exchange Commission Code of 2011 to discuss the result and not necessarily have to wait till the final draft is out to be able to clearly ask questions on any issues not understood by it.

SUGGESTION FOR FURTHER STUDIES

This research study has several strengths however in the course of this study the few constraints encountered call for suggestion for further studies in the following areas. These are:

1. This study concentrated only on the banking sector, future studies could explore other industries apart from the banking sector
2. The survey study carried out in this study was centered on the opinions of professional accountants in the academics. Future studies could consider including other professionals in the industry.
3. The sample size could be increased to include both government and state universities.

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